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THE

INANCIAL RECONSTRUCTION

OF

AUSTRIA

General Survey
and Principal Documents.

CONTENTS.

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VII. REPORTS OF THE FINANCIAL COMMITTEE AND RESOLUTIONS OF THE COUNCIL, WITH RELEVANT PAPERS *(continued)*:

PREFACE.

The Council of the League of Nations decided on June 9th, 1926, that the financial stability of Austria could be considered as assured within the meaning of the Protocol, and that the office of the Commissioner-General should therefore be terminated on June 30th.

While certain minor responsibilities remain in connection with the control of the assigned revenues and the expenditure of the balance of the reconstruction loan, the essential task of the League undertaken in October 1922 was thus discharged a little less than four years later.

It has been thought well to collect and reprint in a convenient form the various official documents relating to the work so concluded. The present volume includes all such documents (apart from a few of purely ephemeral interest) with the exception of: (*a*) a report of a preliminary enquiry in 1921 [1]; (*b*) the forty-two monthly reports of the Commissioner-General of the League of Nations in Austria [2]; (*c*) the special report by Sir William Acworth on the railway position (C.638.1923); (*d*) the report by Mr. W. T. Layton, C.H., and Professor Rist on the economic situation (C.440 (1).1925), all of which are published separately and are too voluminous for inclusion here. In the documents included in these publications, therefore, the student and historian has all the official material relating to the League's task of assisting the

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1 "League of Nations: Financial Reconstitution of Austria. — Report of the Financial Committee of the Council (with relevant papers)", 1921.

2 The forty-two reports of the Commissioner-General will shortly be available in volume form with alphabetical index.

financial reconstruction of Austria, up to the date of the termination of the Commissioner-General's office.

The official documents are preceded by a general survey summarising the more important features of the work, and also by three memoranda, the first of which has been specially prepared for this volume by the Austrian National Bank and the two others by the Federal Ministry of Finance. A statistical and a chronological table, together with a brief bibliography, have also been added for convenience. It is hoped that these supplementary memoranda and tables will assist the reader in following the course of the work, and every care has been taken to make them accurate; but the actual official documents, printed as such, constitute, of course, the only fully authoritative material.

THE FINANCIAL RECONSTRUCTION OF AUSTRIA

I

GENERAL SURVEY

by Sir Arthur SALTER.

1. FROM THE ARMISTICE TILL AUGUST 1922.

The history of Austria in the period immediately after the war is outside the scope of this note. But, in order to understand the action of the League in 1922, it is necessary to bear in mind some of the main events of the previous years.

The break-up of the old Habsburg Empire preceded by a few weeks the conclusion of the war; and the Treaty of St. Germain, in defining the frontiers of the new Austria, recognised and stabilised a separation that had already taken place. This new Austria was not so much the creation of a new country as the remnant left after the frontiers of new adjacent States had been defined. Its attainment of a new economic equilibrium was difficult, for its great capital Vienna included a concentration of population dependent on a system of banking, trade and industry originally adapted to the requirements not of a small country but a great empire. The new frontiers, along which formidable economic barriers

were quickly erected, separated the city population from a large part of their normal food supply and the main industries from both their raw materials and their markets. No less important, in the first years after the war, was the absence of internal cohesion within the new boundaries. There was no strong sense of national unity between Vienna and the predominantly agricultural provinces which formed the rest of Austria. On the contrary, there was a strong tendency to break up province by province; any form of common government was extremely difficult, and as the currency lost its purchasing value it became impossible to make the supplies of the country available for the capital. Vienna was not only reduced to being the capital of a small country, she was isolated within her own boundaries. There is no analogy in modern times, and scarcely any in history, to such an isolation of a great city.

Dissolution and distress were, as in other countries, attended by social revolution. A republic was formed, and during the first two years the Socialist party took part in the Government. The transformation was effected with less suffering, and more successfully, than elsewhere. But it is no wonder that the new regime failed to deal with an economic and financial problem which would probably have been beyond the unaided powers of any government.

Under these conditions, distress, to some extent throughout Austria and especially in Vienna, was extremely severe in 1919, 1920 and 1921. Death or enfeeblement by starvation was probably on a bigger scale in Austria in these years than in any country in Europe except Russia.

On the other hand, the dramatic character of Austria's misfortunes secured recognition in the outside world and, with recognition, assistance.

As early as the peace negotiations, indeed, it had been recognised that Austria, so far from being able to pay

reparation, would need relief. While a reparation liability (not fixed in amount) was imposed and a reparation authority resident in Vienna was appointed, it was indicated that the duty of this authority would be rather to assist Austria than to exact tribute from her. So paradoxical an arrangement proved unsuccessful, as might have been expected, for the only general scheme produced was at once rejected by the Allied Powers; but (apart from certain deliveries in kind) at least no serious attempt was made to exact reparation. Meantime, through other channels, substantial relief measures were undertaken from the first: immediately after the armistice, food supplies were sent into Austria on credit, and in March 1919 a further relief credit of 30 million dollars, later increased to 48 million dollars, was furnished by France, Great Britain and Italy. The United States contributed further loans, amounting ultimately to a total of some 24 million dollars, and in April 1920 an International Relief Credits Committee enlisted the support and co-ordinated the assistance of a number of neutral countries as well—Holland, Switzerland, Norway, Denmark and Sweden. Over 25 million sterling was provided in this way during the three years 1919, 1920 and 1921.

These public loans were supplemented by generous and extensive charitable work, probably amounting to an expenditure of not less than 50 million dollars.

In addition, Austria profited largely by the general reluctance of the external world (which was so notable and, as it now appears, so remarkable a factor in the post-war financial position of Europe) to believe that a national currency could completely and permanently lose its value. Foreign speculators bought the crown for a rise, and foreign merchants accepted it in payment at a value far exceeding that at which they were subsequently able to realise it.

By means of these three sources of external assistance,

Austria managed to live during 1919, 1920 and 1921. Indeed, the condition of the people tended on the whole to improve; and the actual distress in the winter of 1921–22 was probably considerably less than in the two previous winters. But absolutely no progress had been made in dealing with the fundamental problem. Austria was living on credits and charity alone. She was no nearer being able to support herself when they ceased On the contrary, her financial position was worse than ever; and her public assets were pledged for the loans already obtained and secured.

In March 1921, the four principal Allied Powers, who had recognised in 1919 that Reparation must give way to Relief, saw clearly that Relief must be replaced by Reconstruction. To obtain the financial basis for this, they agreed to release, for a period to be determined later, the assets assigned as security to the credits they had already granted, and decided to ask the 13 other countries which had co-operated in the relief credits or had reparation claims to waive their rights similarly. At the same time they asked the League of Nations to propose a general scheme of reconstruction.

The Financial Committee at once met, and on April 4th it stated the main conditions on which they considered that the restoration of Austria could be achieved. Among these was the early decision by all the Governments concerned to postpone any claims in respect of reparation and relief credits for a sufficiently long period, such as 20 years. At the same time, the Committee sent a Delegation to Vienna, which studied the position on the spot from April 15th to May 10th and recommended a far-reaching and detailed scheme, which was approved by the Council of the League and forwarded to the Supreme Council of the Allies on June 3rd. It was a cardinal feature of these recommendations that Austria could only be saved by a comprehensive scheme, including

internal reform, sufficient credits and a central control of these credits which would ensure that they were so used as to assist and secure the internal reform.

At the time when this scheme was framed, Austria's credit position (apart from the liens upon her assets) was relatively good and had not been seriously impaired by fears as to her social and political stability. It was believed that, as soon as her assets were free, they would serve as a sufficient security for private credits, without the need for Government guarantees.

The scheme was not put into operation, because the negotiations with the many Governments whose consent was necessary to the release of the liens encountered many difficulties and proved to be very protracted. It was not until July 1922 that a way appeared to be opening for a scheme based upon the use of Austria's assets.

By February 1922, Austria's needs had become imperative, and, unless assistance had been forthcoming, a collapse must have taken place in the early part of that year. In this crisis, Great Britain, France, Italy and Czechoslovakia came to the rescue by providing further assistance from public funds. Great Britain advanced £2,250,000 (of which £250,000 was required for the repayment of an earlier debt), France made provision for the advance of 55 million francs, Italy made provision for the advance of 70 million lire, and Czchoslovakia arranged to supply 500 million Czech crowns. Of these sums the British advance was quickly expended but considerable proportions of the French and Italian grants and a smaller proportion of the Czechoslovak grant remained available (as will be seen below) to assist the initial stages of the new scheme.

These advances were clearly distinguished from the earlier credits, the repayment of which was to be postponed for 20 years. Some of them (such as the British) were specifically

to be repayable out of the first loans raised by Austria; others (such as the Czechoslovak) were based upon certain assets specially released by the Reparation Commission for the purpose, with the stipulation that these securities would be incorporated into any securities upon which a League of Nations loan scheme might ultimately be based; all remained as a pressing and inevitable charge upon Austria's immediate budgets.

2. From August to October 4th, 1922.

By these means an actual collapse was arrested in the first six months of 1922. But the advances served no further purpose. They were granted independently by the several Governments; they were subject to no central control. They were, as was natural in the circumstances, consumed for current needs and were not the basis of any effective reform. Austria's financial disorganisation proceeded, and at an accelerated pace. The crown was, in August, worth only one-tenth of its value six months before, only about one-hundredth of its value a year before, and only one-fifteen-thousandth of its gold value.

The Austrian Government made a desperate appeal to the Allied Powers then meeting in London. The Austrian Minister stated that some of Austria's assets had at last been released to form securities for a loan, " but the foreign bankers who, a year ago, were still willing to grant such a loan, to-day declare that it is impossible to do so, because to them and to the general public the continued existence of Austria has become doubtful. The bankers consider the revenues offered by the Austrian Government a sufficient *financial* guarantee; they demand, however, a second guarantee, which can only be given by the chief Allied Powers " (*i.e.*, a guarantee which would safeguard the lenders against the destruction of Austria's assets by social upheaval or continued depreciation of the

crown). The Austrian Minister therefore appealed for Government guarantees to assist in raising a loan of 15 million sterling.

Reply of the Allied Powers. — This communication was considered by the Supreme Council, on behalf of which Mr. Lloyd George, on August 15th, replied that " the representatives of the Allied Governments have come to the decision that they are unable to hold out any hope of further financial assistance being given to Austria by their Governments. They have agreed, however, to a proposal that the Austrian situation should be referred to the League of Nations for investigation and report, the League being informed at the same time that, having regard to the heavy burdens already borne by the taxpayers of the Allied Powers, there is no prospect of further financial assistance to Austria from the Allied Powers unless the League were able to propose such a programme of reconstruction, containing definite guarantees that further subscriptions would produce substantial improvement and not be thrown away like those made in the past, as would induce financiers in our respective countries to come to the rescue of Austria. The representatives of the Allied Powers have reached the above decision with much reluctance and from no lack of sympathy with the Austrian people, but they have been obliged to take into consideration the crushing taxation which their respective countries already support in consequence of the war ".

This correspondence was then forwarded to the League with the request that it should be placed on the agenda of the next meeting of the Council.

Conditions under which the Problem was referred to the League in August 1922. — The reply of the Allies to the Austrian Government was not such as to afford any relief to the anxieties of the immediate future. Its request to the League

was only "for investigation and report", and it was coupled with the statement that the Allied Governments were unable themselves to hold out any prospect of further financial assistance and that there was no hope, therefore, unless a scheme could be devised which would attract money from private sources. At this crisis, in the interval between the London Conference and the meeting of the Council of the League, Mgr. Seipel, the Austrian Chancellor, visited Prague, Berlin and Verona, to discuss the situation of his country with the Governments of Czechoslovakia, Germany and Italy. It was clear to the world that the financial and economic disorganisation and the imminent dangers of social distress and disturbance had developed to a point at which they had created also a grave political problem. It was also clear that, in this political situation, it was more than ever hopeless to expect that private credits would be forthcoming on the basis of Austria's own assets. Her best securities, the revenues from the Customs and the Tobacco Monopoly, however sufficient in normal circumstances, could not be relied upon in the event of serious social or political disturbances. No scheme was possible unless they could be supplemented by Governmental guarantees, and these guarantees, difficult in any event, would be more difficult unless something could be done to relieve the political tension.

The League's Methods of Work. — The Council was thus confronted with a complex problem, political as well as financial in its character. At its first meeting on August 31st, 1922, it at once instructed the Financial Committee to examine the financial aspects of the problem, while carefully reserving any decision as to whether it would undertake any responsibility for the problem, and, if so, on what conditions. On September 6th, Mgr. Seipel made his appeal in a public meeting of the Council. He described Austria's distress and explained the need for a guarantee for a loan to help her

through the period when she was achieving reform and release from some of the impediments to Austrian commerce. He added that Austria was ready to accept a system of control as a corollary to assistance, and expressed the opinion that, with such assistance, she could soon become economically self-sufficient. He concluded, however, with a grave warning that without such assistance the condition of Austria constituted a serious danger to the peace of the world, which it was the duty of the League of Nations to examine and avert.

It should be noted that the Austrian representative, in making this appeal, and in all subsequent meetings ot the Council and its Sub-Committee, when dealing with the Austrian problem, was himself a Council member with full and equal rights in accordance with Article 4 of the Covenant, which provides that " any Member of the League not represented in the Council shall be invited to send a representative to sit as a Member at any meeting of the Council during the consideration of matters specially affecting the interests of that Member of the League ".

The Council next invited Czechoslovakia also (represented by its Prime Minister, Dr. Benes) to join the Council for this question, and formed a Sub-Committee (the Austrian Committee) entrusted with the direction of all further work upon it. The Committee consisted of five members of the Council so constituted: Lord Balfour (Great Britain), who was asked to preside over the discussions, M. Hanotaux (France), the Marquis Imperiali (Italy), Dr. Benes (Czechoslovakia), and Mgr. Seipel (replaced, when he was absent, by Dr. Grünberger, the Austrian Minister for Foreign Affairs). The composition of the Committee thus expressed the Council's sense of both the importance and the range of the question. It continued throughout to direct the work, meeting twelve times between the date of its appointment and the date of the signature of the Protocols on October 4th. It will be

noted that the hitherto separate and independent negotiations were now transferred to a single Committee which worked continuously and consisted of the representatives of all the Powers chiefly concerned, including the Prime Ministers, or Ministers of Foreign Affairs, of two of them.

The composition of this Committee (which, with changing personnel, has continued during the last four years to supervise the task of reconstruction in regular meetings every three months) and the subsequent organisation of the work, afford a typical example of the methods of the League. The Committee used throughout the League's technical organisations. At once determining the general outline of the questions requiring solution, it divided them among the different expert committees at its disposal. Within this general outline, the Financial Committee gave its advice.

Working within the same general programme, the Economic Committee considered what immediate economic measures could usefully be recommended. At the same time, a legal Committee, drawn partly from legal experts of the several delegations and partly from the permanent staff of the League, advised on such legal questions as presented themselves in the course of the work. The Austrian Committee of the Council kept in its own hands the specifically political aspects of the problem and maintained its control over the work of the above Committees by considering interim reports as they proceeded with their studies.

The Financial Committee [1], which was first consulted, consisted of members who met not as representatives of the different Governments but as experts invited by the League

[1] The members of the Financial Committee who were present during these discussions were: M. Janssen (Chairman); M. Arai; M. Avenol; Sir Basil Blackett (replaced at later meetings by Mr. Fass); Dr. Pospisil; Sir Henry Strakosch, with the addition of M. Maggiorino Ferraris and M. A. Sarasin, who were co-opted for the purpose.

to give their best professional advice. The reports signed by them did not therefore in any way commit the Governments to accepting its recommendations. At the same time, the different members were naturally in a position to estimate, with some special knowledge, the probable policy and attitude of their respective countries. Their work was done in Geneva, during the meeting of the Assembly, for which delegations of representatives of the countries concerned were present. The conditions were thus favourable for the working-out of a scheme which should be both adequate in its provisions and not impossible of acceptance; and for an understanding by the Governments whose assistance was required of the reasons for which the precise scheme put before them was recommended.

The Financial Committee's Report. — The Financial Committee was first asked to consider, in consultation with the Austrian representatives, what measures were required and were practicable to secure budget equilibrium; after what period, with these measures, the result desired should be obtained, and what deficit in terms of gold must be contemplated as inevitable during the intervening period.

The replies indicated in main outline the financial scheme which was gradually worked out in the next few weeks and embodied in the Protocols summarised below. At the same time, the Committee, in presenting its report, was careful to point out that no financial scheme could itself save Austria. "Behind the problem of financial and budget reform remains that of the fundamental economic position. Austria cannot permanently retain a sound financial position, even if she attains it for the time, and maintain her present population, unless her production is so increased and adapted as to give her (with her 'invisible exports') an equilibrium in her trade balance as well as in her budgets. This balance is at present seriously adverse, partly, but certainly not wholly,

as a result of inflation and currency dislocation. All possible measures, whether by the amelioration of international economic relations, the encouragement of the conditions which would increase Vienna's *entrepôt*, financial, and transit business, and of those which will attract further private capital towards the development of her productive resources, are therefore of the greatest importance. These are, however, outside the Financial Committee's province. If the appropriate financial policy is adopted and maintained, the Austrian economic position will adjust itself to an equilibrium, either by the increase of production and the transfer of large classes of its population to economic work, or economic pressure will compel the population to emigrate or reduce it to destitution. At the worst, this would be better than the wholesale chaos and impoverishment of the great mass of the town population which must result from the continuance of the present financial disorganisation, which affords no basis for such economic adaptation as is possible."

The Economic Committee [1] was simultaneously asked by the Council whether it could make any immediate suggestion which would assist in this wider and longer task of the re-establishment of the trade balance. The Committee confined itself for the time to certain preliminary suggestions. First, it advised the conclusion of conventions and bilateral agreements between Austria and each of the Succession States, based as far as possible on the Porto Rosa Protocol, but with such modifications as it might be possible and advisable to introduce in order to adapt them to each special case. Secondly (while endorsing the advice of the Financial Committee as to State enterprises), it called attention to the need

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[1] The Economic Committee constituted a special Sub-Committee for this purpose, consisting of M. Serruys, M. Dvoracek, M. Guarneri, M. Heer and Sir Hubert Llewellyn Smith.

for Austria to reform both her international economic system and the conditions of her external trade.

Last Stages of the Negotiations. — Meanwhile the Austrian Committee of the Council had itself been discussing directly the terms of a political declaration designed to give confidence in the political and economic integrity and independence of Austria. The whole scheme was gradually developed, with the assent of the different delegates of Governments, and on the last day of the Assembly (September 30th, 1922) the Council was able to report that, though its task was not fully accomplished, there was a good prospect of a complete scheme being signed, with the assent of the Governments concerned, within a few days.

This result was achieved on Wednesday, October 4th, when three Protocols were signed, covering, with their Annexes, which include the Financial Committee's Report, the whole of the Council's scheme; and the signatures indicated the complete and unreserved assent of the Governments of Great Britain, France, Italy, Czechoslovakia and Austria to every part of the scheme.

The first of these Protocols, signed by all the above Powers and open for the signature of all countries, contained a solemn declaration that the signatories will " respect the political independence, the territorial integrity and the sovereignty of Austria; that they will not seek to obtain any special or exclusive economic or financial advantage calculated directly or indirectly to compromise that independence; and that they will, should occasion arise, appeal to the Council of the League and conform to the decisions of the Council ". Austria herself, in the same Protocol, entered into corresponding obligations.

Protocol II, with its Annexes, stated the conditions of the guarantee of the loan, the obligations of the guaranteeing Governments, and the powers and duties of the Committee

composed of representatives of those Governments. It was signed by the four principal guaranteeing Governments and by Austria and was open for signature (with suitable modifications as to the extent of their guarantee) by all other countrie sable and willing to participate in the financial scheme.

Lastly, Protocol III set out separately the obligations of Austria and the functions of the Commissioner-General, who was to collaborate with her in her programme of reform and its execution.

From these three Protocols, taken together, emerges the League's general scheme.

Summary of the Scheme.

The basis of the scheme was the political integrity and economic independence of Austria and the Declaration (Protocol I) designed to ensure it.

Aided by the confidence which it was hoped this Declaration would create, Austria was to commence a programme of reform (including economy in expenditure and increased revenue from taxation) which was to ensure the balancing of her budget by the end of 1924. In the meantime, the excess of her expenditure over the revenue available from normal resources during these two years — estimated at a maximum of 650 million gold crowns — was to be met by the proceeds of loans.

These loans, for the reasons given above, were to be guaranteed by external Governments, in addition to being secured on assets which (if the reforms were successful and order and stability maintained) would be sufficient without application to the guarantors. The guarantees were to take the form of a definite guarantee of a stated proportion of the interest and amortisation by each guaranteeing Power. The Governments of Great Britain, France, Italy and Czechoslovakia at once undertook to guarantee 20 per cent each or

80 per cent in all (in addition to covering a certain portion of the risk of other guaranteeing Powers). Only 20 per cent remained, therefore, to be covered by guarantees from all other countries. The guaranteeing Governments were not to be subject to any cash liability so long as the assigned assets proved sufficient for the service of the loan.

With the prospect of resources from these loans, Austria was to be relieved from the necessity of financing herself by the issue of paper money and so causing a continuance of the precipitous fall of the crown, which up to that date had rendered all efforts at budget equilibrium futile and had destroyed any stable basis for the economic life of the country. The scheme also assumed, and regarded as essential, the establishment of a Bank of Issue under certain definite and specified conditions. The Austrian Government was to surrender all right to issue paper money, and would not, except with special authorisation, negotiate or conclude loans.

Austria, therefore, in carrying through her reforms, was no longer building on the shifting basis of a continuously depreciating currency. Hitherto she had been in the unhappy position of knowing that she could not stop inflation until her budget balanced, and could not balance her budget while inflation continued. Now for the first time she had a prospect of the funds required to carry her over the necessary transition period.

But the successful accomplishment of the reform programme, on which both Austria's prosperity and the value of her assets depend, would necessarily be a difficult and painful task. The scheme therefore included the appointment of a Commissioner-General, whose duty was to ensure, in collaboration with the Austrian Government, that the programme of reforms was carried out and to supervise its execution. He would derive power from his control of the disposal of the loans.

In this respect Protocol III reads (Article 4): "The Austrian Government agrees that it may not dispose of any funds derived from loans . . . except by authorisation of the Commissioner-General"; but the conditions which he may attach to his authorisation "shall have no other object than that of assuring the progressive realisation of the programme of reforms and of avoiding any deterioration of the assets assigned for the service of the loan".

The officer entrusted with this great responsibility was not the representative of the guaranteeing Powers. He was an officer of the League of Nations. He was appointed by and responsible to the Council of the League, of which the Austrian representative is, when Austrian matters are discussed, a full and equal member. Indeed, the Council, in approving the scheme, added a resolution that the Commissioner-General should not be drawn from any of the principal guaranteeing countries (nor from countries bordering upon Austria). His primary concern would be identical with that of the Austrian Government and the permanent interests of the Austrian people, namely, that the measures to enable Austria to achieve a position of self-supporting independence should be successful; the due maintenance of the value of the securities of the loan was, of course, a part, but a part only, of the general programme which it was the duty of the Austrian Government to frame and execute and his to supervise. The Commissioner-General was to live in Vienna. He had to report monthly to the Council of the League. His functions would end as soon as the Council judged that the financial stability of Austria was assured.

In addition to the League's Commissioner-General, there was created a "Committee of Control of the Guaranteeing Governments". This Committee, of which the Italian member is President and the Czechoslovak member Vice-President, was formed of the representatives of the guaranteeing

Powers, with votes proportionate to the guarantees they have offered, and it watches their special interests. It is not in permanent session but meets from time to time, normally at the seat of the League. The approval of this Committee, by a two-thirds majority, was required to the main conditions under which the loan, whose interest and amortisation are guaranteed, was subscribed; and by the same majority it has to determine the conditions of the payments should the guarantees actually be called upon. For other purposes, the Committee works normally by a majority vote. It received the monthly reports presented by the Commissioner-General to the Council; it might ask him for information as to the progress of the reforms and make representations to him with regard to safeguarding the interests of the guarantors. If the assigned revenues are insufficient for the service of the loan, it may require the assignment of additional securities.

In exercising these rights, the Committee communicated not with the Austrian Government but with the Commissioner-General as long as he remained in function. The Committee and each guaranteeing State have a right of appeal to the Council *en cas d'abus*.

The rights and powers of both the Commissioner-General and the Committee were carefully defined, so as to restrict them to the precise objects with which they were concerned — the execution of the reform programme and the maintenance of the value of the securities — and to avoid any infringement of the sovereignty of Austria and the full responsibility of her Government.

The essential features of the agreement arrived at were thus a programme of financial reform extending over at least two years; provision to meet the deficit during this period by guaranteed loans; the arrest of the collapse of the crown; and the supervision of the Austrian Government's execution of the scheme within carefully defined and restricted limits.

The sense of grave and anxious responsibility with which the League initiated this novel and ambitious scheme is clearly reflected in the concluding passage of the Financial Committee's Report:

"Austria has for three years been living largely upon public and private loans, which have voluntarily or involuntarily become gifts, upon private charity and upon losses of foreign speculators in the crown. Such resources cannot, in any event, continue, and be so used. Austria has been consuming much more than she has produced. The large sums advanced, which should have been used for the re-establishment of her finances and for her economic reconstruction, have been used for current consumption. Any new advances must be used for the purposes of reform; and within a short time Austria will only be able to consume as much as she produces. The period of reform itself, even if the new credits are forthcoming, will necessarily be a very painful one. The longer it is deferred the more painful it must be. At the best, the conditions of life in Austria must be worse next year, when she is painfully re-establishing her position, than last year, when she was devoting loans intended for that purpose to current consumption without reform.

"The alternative is not between continuing the conditions of life of last year or improving them. It is between enduring a period of perhaps greater hardship than she has known since 1919 (but with the prospect of real amelioration thereafter — the happier alternative) or collapsing into a chaos of destitution and starvation to which there is no modern analogy outside Russia.

"There is no hope for Austria unless she is prepared to endure and support an authority which must enforce reforms entailing harder conditions than those at present

prevailing, knowing that in this way only can she avoid an even worse fate."

Complementary to this warning, and not inconsistent with it, was the confidence expressed by the Austrian Chancellor that if Austria could find the indispensable aid from outside, she would "become self-supporting sooner than might be supposed. Austrian agriculture only needs to be intensified. Austria possesses a long-established industry which the war and its consequences have deprived, till now, of the necessary funds; she possesses the latent wealth of her hydraulic forces, which it has not been possible sufficiently to exploit; but her greatest wealth is her excellent geographical situation, and, above all, her gifted and industrious population."[1]

It was with these dangers and with these hopes that Austria, with the aid and support of the League and of the Governments which were assisting her, had to climb up "the precipitous but not impossible track" towards financial reform and self-supporting economic independence.

3. The Period of Execution, October 1922 to June 1926

The earlier stage of negotiations and preparation has been described at some length in this Preface because there are no official reports and documents for this period from which the tale of events emerges clearly. From December 1922 onwards, when Dr. Zimmerman assumed office, his monthly reports give a regular and full account of the development in the work. Moreover, three memoranda, specially prepared for this volume by the Austrian National Bank and the Austrian Ministry of Finance, describe in some detail the work of the Bank in stabilising the currency, the state of the public finances and the administrative

[1] Speech by Mgr. Seipel before the Council of the League, September 6th, 1922 (see *Official Journal* (Part III), November 1922, page 1448).

reforms. Throughout this period, moreover, the Financial Committee and the Council reviewed the situation every three months, on the basis of Dr. Zimmerman's reports, and in consultation with him and the Austrian Government; and the Committee's reports and Council resolutions, also printed in this volume, give a good picture of the difficulties encountered and the progress achieved. It will suffice in this Preface therefore to describe the main events of this period of three and a-half years.

In reviewing the whole reconstruction period subsequent to the signature of the Protocols, we may conveniently distinguish four divisions:

1. A short period of preparation for putting the scheme into execution, from the signature of the Geneva Protocols down to the beginning of the Commissioner-General's control (October 4th - December 14th, 1922).

2. From the beginning of control down to the successful issue of the long-term reconstruction loan (December 15th, 1922-August 1923). During this period the scheme showed itself as on the whole workable. The system of control was successfully established, reforms were begun, a series of special enquiries were made and, at the end, the necessary external loan was definitely obtained. There is a remarkable financial recovery leading to a "boom", and excessive Stock Exchange speculation.

3. There follows a year of considerable doubt and uncertainty (September 1923-September 1924). The reconstruction work proceeds, but more slowly; modifications have to be made in the original plan; there is a financial crisis on the Vienna market. The period ends with a new agreement with the Austrian Government on the reforms which still require to be carried out before the reconstruction work can be regarded as complete and the control removed.

4. During this next year and nine months (September 1924 - June 1926) those reforms are gradually effected. Meanwhile a general anxiety as to the economic future of the country gives rise to a special enquiry and a report to the Council. In Septembei 1925 a modified control is introduced with the prospect of gradual removal by stages. During the last months (September 1925 - June 1926) the final conditions for the complete removal of control are carried out, and on June 30th, 1926, the Commissioner-General's functions are terminated.

1. *October - December* 1922.

The signature of the Geneva Protocols on October 4th immediately gave rise to a series of obligations for the Austrian Government and the League. The undertakings contained in the Protocols, and the principles of reconstruction recommended by the Financial Committee, had still to be translated into practical measures legally accepted by Parliament. A provision had been inserted in the third Protocol that a detailed programme of financial reform was to be worked out by a Delegation of the Council in agreement with the Government. This Delegation, consisting of almost all the members of the Financial Committee, arrived at Vienna on October 18th. The force of circumstances and some delay in the appointment of the Commissioner-General compelled it to take a wider responsibility than the mere elaboration of a programme. One or more of its members or of the Secretariat remained in Vienna until the Commissioner-General arrived. It not only performed its main task of drawing up a scheme of budget reform and the statutes of an independent central bank; it saw that the necessary legislation was prepared, and was present in Vienna while the passage of that legislation through Parliament was negotiated between the Government and Opposition Parties; it set up

preliminary measures of control; above all, it advised the Austrian Government in meeting the most pressing Treasury difficulties.

These three months constituted, indeed, a time of great anxiety. It was true that the mere adoption at Geneva of a comprehensive scheme had so far restored confidence that the exchange had stopped falling. But the scheme only existed on paper, and until credits became available and the new bank of issue was founded, there was no real support to prevent a further decline; and the external loan was still a distant and doubtful prospect. Meanwhile the Treasury was at times almost empty. Details of its intricate and obscure operations of this period can find no place in this summary. A single figure will illustrate the difficulties of the time. For the month of October, when the Delegation arrived, the estimated receipts were only about one-third of the expenditure. For one month the note printing press continued to work as before; the State lived on advances from the Bank, and in spite of this the exchange remained steady. But on November 18th the inflationary issue of notes was definitely stopped. Every kind of makeshift device was then resorted to. Notes printed before this date were used; temporary accommodation was arranged with the most pressing creditors; some of the advances from external Governments arranged in February 1922 and not actually paid over were secured, and only used to meet the most urgent necessities.

In these precarious circumstances an operation was carried out which not only tided over the difficulties of the moment but offered a happy augury for the future of the scheme. During the month following the stoppage of inflation, the Government offered exclusively on the home market some 50 million gold crowns in six-month Treasury Bonds quoted in dollars and carrying 8 per cent interest. Thirty millions were immediately taken up by the banks, which effected

payments as from November 14th and paid their last instalment by the end of the first week of December. The remainder was ultimately taken up by the public. The operation was assisted by the fact that the Austrian Government agreed, in anticipation of the Commissioner-General's control, to pay, as from December 8th, the revenues from the Customs and Tobacco Monopoly, on which the bonds were secured, into a special account in the name of the Delegation. The proceeds of the issue were paid into a similar account, and the balance of the February credits and the sum due to Austria on the liquidation of the old Bank of Issue into a third account.

It was in the midst of the daily and almost hourly preoccupations of a hand-to-mouth existence that the Government and Delegation addressed themselves to their main task of translating into practical measures the Geneva agreement and of giving it legal effect in Austria. This task had been defined in the Protocols in two passages. The first related to the Budget:

> "The Austrian Government will, within one month, in collaboration . . . with such provisional delegation of the Council of the League of Nations as may be appointed for the purpose, draw up a programme of reforms and improvement to be realised by stages and designed to enable Austria to re-establish a permanent equilibrium of her budget within two years. . . . This programme must place Austria in a position to satisfy her obligations by the augmentation of her receipts and the reduction of her expenditure; it will exclude any recourse to loans except under the conditions determined by it; it will prohibit, by the terms of the Statutes to be drawn up for the Bank of Issue which is to be created, any further monetary inflation. . . . The Austrian Government will ask its Parliament to approve the above-mentioned plan" (Protocol III, Article 2).

The second was designed to guarantee the acceptance of the plan by the country as a whole and protect it from political vicissitudes:

> "The Austrian Government will forthwith lay before the Austrian Parliament a draft law giving, during two years, to any Government which may then be in power, full authority to take all measures, within the limits of this programme, which in its opinion may be necessary to assure at the end of the period mentioned the re-establishment of budgetary equilibrium without there being any necessity to seek for further approval by Parliament" (Protocol III, Article 3).

It will be seen at once that this was not merely a technical and financial task. It involved serious political considerations, all the more as the necessary full powers could only be granted to the Government by means of a constitutional law requiring a two-thirds majority; and the complexion of parties made it necessary to obtain the consent of the Social Democratic Opposition. The Delegation took no active part in the protracted negotiations between the Government and the Opposition, and in discussing the programme it deliberately refrained from interfering in the question of the allocation of the total burden between the various classes of taxes and in the choice of the methods of taxation.

The Government presented a draft reconstruction law embodying a series of measures intended to produce budget equilibrium within the time contemplated. This law, details of which are given in a special memorandum (pages 113 *et seq.*), together with the question of the Government's full powers, became a party issue. The Delegation finally accepted this law as sufficient, on the understanding that an agreement translating a programme of budget reform into definite figures and privately agreed with the Austrian Government should be

carried out. A further condition was the agreement of the Government to dismiss 100,000 officials before July 1st, 1924.

The programme of budget reform was as follows:

PROGRAMME OF BUDGET REFORM AGREED BETWEEN THE AUSTRIAN GOVERNMENT AND THE LEAGUE DELEGATION (NOVEMBER 1922).

(Figures on an annual basis, in millions of gold crowns.)

	1922	1923		1924		1925
	Oct. 1st	Jan. 1st	July 1st	Jan. 1st	July 1st	Jan. 1st
Expenditure						
1. Service of the Debt [1]	30.5	30.5	48.–	66.–	84.–	100.5
2. Pensions and compensation	41.–	47.1 [2]	54.8	60.8	64.2	62.3
3. Army	52.–	48.7	43.1	37.5	31.9	26.2
4. Social relief	40.–	37.4	34.6	32.0	29.2	26.0
5. Other Administrative departments	272.–	260.7	235.–	210.–	185.–	155.–
6. Contributions to independent administrative organisations (grants to staff)	50.–	33.3	33 3	16.6	16.6	—
7. Proportion of combined revenue assigned to provinces and communes	3	3	3	3	3	3
8. Loans to independent administrative organisations	18.–	—	—	—	—	—
9. Federal Railways (deficit on)	147.–	91.–	72.–	45.–	23.–	—
10. Other State enterprises (deficit on)	22.–	21.–	15.–	10.–	5.–	—
11. Monopolies (deficit on)	—	—	—	—	—	—
Total expenditure	672.5	569.7	538.8	477.9	438.9	370.– [4]
Total receipts	215.1	287.166	377.407	435.294	461.135	489.27
Deficit	457.4	282.534	158.393	42.606	—	—
Surplus	—	—	—	—	22.235	119.276

[1] Excluding the debt on the Federal Railways.

[2] According to the estimates, 41 million gold crowns, to which figure must be added supplementary estimates amounting to 61 million gold crowns to cover expenditure on pensions and compensation.

[3] This section has been omitted in the statement of expenditure and allowed for in the statement of receipts.

[4] It was agreed between the Austrian Government and the League Delegation that this figure for the total expenditure in 1925 should be reduced to 350 million gold crowns.

It was estimated that in October 1922 expenditure was about 672 million gold crowns and revenue about 215 million, thus leaving the enormous deficit of about 457 million gold crowns. The programme aimed at reducing expenditure to 350 million and raising receipts to 490 million in 1925, thus creating a surplus of 140 million gold crowns. This result was to be achieved by a series of detailed administrative reforms including the dismissal of not less than 100,000 officials, the reorganisation of State enterprises, increase in revenue, and provisions regarding the financial resources of the provinces and communes, which had hitherto lived on heavy subsidies from the State but at the same time enjoyed a large measure of autonomy.

This scheme was modified and superseded by a new agreement after nearly two years' experience. But during those two years it was of capital importance. Month by month the Austrian Government drew up its estimates by reference to this plan, and the Commissioner-General approved, criticised or reduced those estimates with a view to obtaining, as nearly as possible, at each six-monthly stage the result contemplated in it. In the event, the budget level could safely be raised, owing to circumstances which will appear later and which were partly unforeseen. But the original estimates were intentionally conservative. The expenditure contemplated involved taxation equal to 60 gold crowns per head of population — a considerable burden in view of the uncertain economic future of the country. At the moment when legislation was being passed which would govern the whole reconstruction work, it was prudent to ask for too much administrative reform and economy rather than too little. Once this legislation had been passed, it would have been exceedingly difficult to reduce the level of the budget.

The detailed figures of this plan were consigned to a

private agreement between the Government and the Delegation; the detailed provisions intended to reach this result were embodied in a Reconstruction Law which was passed by a majority vote of the Austrian Parliament on December 3rd, 1922, the day after the Geneva Protocols were ratified — also by majority vote.

By this date the delicate question of the Government's full powers had also been solved. On November 26th the Parliament unanimously passed a Constitutional Law authorising the Government by means of decrees to take any further measures necessary to carry out the programme of reforms and to introduce any amendments or additions to the programme which experience might show to be necessary. It provided for the creation of an extraordinary Cabinet Council, consisting of members of the Government and twenty-six members elected by the National Council by proportional representation. Any measures required to carry out the programme of reconstruction which the Government could not take under the powers it derived from the Reconstruction Law, and any modifications to be made in the programme itself, had to be submitted to this extraordinary Cabinet Council, whose discussions were limited to a period of not more than eight or, in certain cases, three days.

The creation of this body constituted a compromise on the political issues involved by the acceptance of the scheme and is of special interest to the constitutional lawyer and the student of political science. It does not fall within the scope of this volume.

The third task of the Government and Delegation — the amendment of the Statutes of the Bank of Issue so as to make them conform to sound principles of Central Banking — had been completed by November 14th, when Parliament passed the necessary legislation. The main features of this

reform will be described in connection with the creation of the new Bank, which falls in the next period.

When the responsibility of the Delegation ceased with the arrival of the Commissioner-General, it was able to report that all the legislation necessary to give effect to the scheme had been passed; inflation had definitely ceased, and, with the revival of internal confidence, money had been forthcoming to tide over the immediate financial difficulties. And other hopeful symptoms were not wanting. The crown had remained stable; a sudden large influx of foreign valuta had taken place, the holdings in foreign currencies of the Exchange Office increased fourfold in one month. For the first time since the Armistice, prices fell. Savings-bank deposits trebled during the last quarter of the year. On the other side of the picture there was a sharp rise in unemployment (from 58,000 to 117,000 during November and December 1922). This industrial crisis, which had been foreseen, was the first example of those economic difficulties which gave rise to considerable anxiety at a later stage in the reconstruction work.

2. *December* 1922 - *August* 1923.

The Commissioner-General, Dr. Zimmerman, arrived in Vienna on December 15th and began work with his staff, which included M. J. A. de Bordes, Dr. Hans Patzauer, M. A. Pelt (replaced later by Dr. L. Krabbe), M. Pierre Quesnay (afterwards replaced by Dr. G. H. Bousquet) and Dr. J. van Walré de Bordes (replaced later by M. M. M. Rost van Tonningen). By this time the scheme had been worked out in practical detail and had passed into law, and there were some credits available to meet immediate needs. But these funds were limited, and the vital question still remained whether the external world would have sufficient confidence in the efficacy of the scheme to subscribe the large sums of

money required to meet the budget deficits during the period of reform. In his first report Dr. Zimmerman pointed out the seriousness of the situation:

> " It is not too much to say that the whole financial problem is now dominated by the question of whether or not credits, first provisional and then definite, will be placed at the disposal of the Treasury in time. It will not be long before they become indispensable. . . . Since the work of the League of Nations began it should be observed that there has been a remarkable growth of public confidence. . . . During the last few weeks, however, a slight reaction has been felt, which finds its main expression in a greater demand for foreign securities, an increase in speculation on the exchange, and a certain nervousness which is reflected in the Press. "

Accordingly, the obtaining of advances and the issue of the long-term reconstruction loan are, together with the foundation of the new Bank of Issue, the outstanding events of the next nine months.

Many months of complicated negotiations were required before the long-term loan could be floated. The Customs and tobacco receipts had to be released from the first charge in favour of reparation payments and from a similar charge in favour of the relief bonds held by the nine countries which had come to the assistance of Austria in 1919 and 1920. Negotiations had to be concluded with countries which had not signed the Protocols of October 4th to secure their participation in the guarantee of the loan, and in most countries the guarantees had to receive parliamentary sanction. Moreover, it would have been impossible to float the whole loan at so early a stage of the reconstruction scheme on account of the scepticism with which the scheme was at first regarded.

As, however, the Austrian Treasury could not hold out very long, it was decided to precede the long-term reconstruction loan by a short-term loan of a much smaller amount. The Reparation Commission had released the Customs and Tobacco Monopoly from the reparation charge in favour of a short-term loan on October 27th, 1922, and the relief bond-holding States gave similar releases. It was not, however, until February 1923 that all these releases were finally accorded.

There remained the question of guarantees. By January 7th, 1923, Great Britain, France, Czechoslovakia and Italy had ratified the promises of their Governments to guarantee between them 80 per cent of the loan. Negotiations to obtain guarantees for the balance were proceeding, but when the Committee of Control met in January they had only been concluded with the Belgian Government, which agreed to take 2 per cent. Accordingly, the first four Governments agreed to guarantee 24.5 per cent each and the Belgian Government 2 per cent of a short-term loan which the Committee authorised the Austrian Government to conclude. In addition it authorised the Government to begin the negotiations for the long-term loan. On February 1st, 1923, the Council took an encouraging public resolution (page 204). Negotiations for the short-term loan were begun at once and the loan was successfully placed at the end of February in the form of one-year Austrian Treasury bonds as follows:

			Sterling equivalent rates obtaining at end of February 1923 £
In London . . .	£1,800,000 sterling		1,800,000
Paris	60,000,000 Fr. francs	(about)	800,000
Amsterdam .	6,000,000 Dutch fl.	"	500,000
Brussels . . .	8,500,000 Belg. fr.	"	100,000
Stockholm .	1,800,000 Swed. cr.	"	100,000
Switzerland .	5,000,000 Swiss fr.	"	200,000
			£3,500,000

The majority were issued bearing 7 per cent annual interest. The French block bore 8 per cent and the Swiss block 6 per cent. These were all issued at about the same date at the end of February. The English block and the Netherlands block were open to public subscription; the other blocks were taken up directly by the various banking syndicates. In issuing the short-term loan in so many foreign places — a procedure not required by the largeness of the sum involved — the Austrian Government made the best preparation for the placing of subsequent loans.

The Reparation Commission having suspended its lien on February 20th, 1923, for the purpose of a long-term loan (page 151) — the final consent of the relief bond-holding States was not obtained till June (page 153) — negotiations concerning the long-term loan were opened at the beginning of March. The conditions of the loan were embodied in a General Bond (page 154) and approved by the Committee of Control on April 16th. By that date other Governments had agreed to join in the guarantee, so that in the end a loan with a net yield of 585 million gold crowns, or 90 per cent of the amount originally contemplated (650 million gold crowns), could be issued fully guaranteed as follows:

	Per cent
France	24.5
Great Britain	24.5
Czechoslovakia	24.5
Italy	20.5
Belgium	2.0
Sweden	2.0
Denmark	1.0
Netherlands	1.0

In addition, the Swiss Government agreed to make a direct advance of 20 million gold crowns. The Spanish Government had undertaken to guarantee another 4 per cent, but was unable to obtain ratification in time to make the guarantee available for this issue. It was afterwards made available and was used for the guarantee of the block issued in Spain. As this block had a net yield of 26 million gold crowns, the Austrian Government obtained in total 631 million gold crowns (including the Swiss Government advance), or 97 per cent of the amount originally contemplated.

On this basis the loan, with the exception of the Spanish block (which was issued in December 1923), was floated on different dates during June, July and August 1923 in various blocks, the details of which appear in the following tables[1]:

[1] These tables are reproduced, in slightly different form, from *Die österreichische Völkerbundanleihe*, by Hofrat Rudolf Karl, Vienna (1925), pages 74-75.

1. Long-Term Reconstruction Loan.

Gross and Net Yield.

Section of Loan	Nominal amount issued: In currency of issue		Nominal amount issued: In Austrian gold crowns	Price of Issue %[1]	Yield at price of issue: In currency of issue		Yield at price of issue: In Austrian gold crowns	Less miscellaneous general costs of issue, printing, etc. (In Austrian gold crowns)	Net yield (In Austrian gold crowns)
American	Dollars	25,000,000	123,375,000	85.625	Dollars	21,406,250	105,640,000		
Belgian .	Belg. frs.	25,000,000	6,669,000	77	Belg. frs.	19,250,000	5,135,000		
British . .	Sterling	£14,000,000	318,836,000	76.25	Sterling	£10,675,000	243,112,000		
French . .	Fr. frs.	170,000,000	52,910,000	78	Fr. frs.	132,600,000	41,270,000		
Dutch . .	D. florins	3,000,000	5,804,000	76.5	D. florins	2,295,000	4,441,000		
Italian . .	Lire	200,000,000	45,249,000	87.8	Lire	175,600,000	39,729,000		
Austrian .	Dollars	13,000,000	64,155,000	89.5 —91.5	Dollars	11,814,075	58,302,000	2,021,000	585,000,000
Swedish .	Sw. crowns	13,110,000	16,407,000	76.55	Sw. crowns	10,035,705	12,560,000		
Swiss . .	Swiss frs.	25,000,000	22,148,000	76	Swiss frs.	19,000,000	16,832,000		
Czecho-slovak .	Cz.crowns	544,267,000	80,000,000	75	Cz.crowns	408,200,250	60,000,000		
Spanish .	Pesetas	52,300,000	33,811,000	77	Pesetas	40,271,000	26,035,000	35,000	26,000,000
Total .			769,364,000				613,056,000	2,056,000	611,000,000

1 See following table.

Note. — In order to make up the total amount contemplated in Geneva Protocol No. II, of October 4th, 1922, *i.e.*, 650,000,000 gold crowns, there should be added to the total net yield shown in the above table, *i.e.*, 611,000,000 gold crowns, the following sums:

	Gold Crowns.
Swiss Government credit not yet utilised	20,000,000
Balance not issued	19,000,000

2. Long-Term Reconstruction Loan.

Rates, Expenses and Prices of Issue, and Rates of Interest.

Section of Loan	Rate of Issue %	Nominal Rate of Interest %	Rate of Interest at Price of Issue %	Expenses of Issue: Commission %	Expenses of Issue: Stamp %	Expenses of Issue: Other Expenses %	Expenses of Issue: Total %	Actual Price of Issue %
American	90	7	7.778	4.25	—	0.125	4.375	85.625
Belgian	80	6	7.5	3	1	—	3	77
British	80	6	7.5	1.75	2	—	3.75	76.25
French	84	6.5	7.738	3	2	1	6	78
Dutch	80	6	7.5	2.5	1	—	3.5	76.5
Italian	93	6.5 + 15 % Coupon Tax	8.04	4	1.2	—	5.2	87.8
Austrian	91–93			1.5	—	—	1.5	89.5–91.5
Swedish	78	7	7.53	—	1.2	0.25	1.45	76.55
Swiss	80	6	7.69	3	1	—	4	76
Czechoslovak	75 [1]	6	7.5	—	—	—	—	75 [1]
		6	7.55					
Spanish	81	6	7.407		4		4	77.–

[1] Rate at which loan was taken over; net price of issue.

[2] The Committee of Control of the Guarantor States fixed a limit of 4½ per cent for expenses of issue, exclusive of costs of printing, propaganda, stamping and other miscellaneous expenses.

[3] The maximum rate of interest fixed by the Committee of Control of the Guarantor States was 7 3/4 per cent at the price of issue. In the case of the Italian block, the rate at the price of issue is 6.99 per cent after deduction of the 15 per cent coupon tax.

[4] Theses tables are reproduced, in slightly different form, from *Die Oesterreichische Völkerbundanleihe*, by Hofrat Rudolf Karl, Vienna (1925), pages 74-75.

The public issues in London, New York, Stockholm, Amsterdam, Paris, Rome, Switzerland and Vienna were very successful. The Belgian issue was entirely taken over by a consortium of banks and not issued to the public. The Czecho-slovak block was taken over by the Government.

Thus, by the summer of 1923 the sum estimated as necessary to carry the scheme through had been obtained and all anxieties under this head were at an end.

Meanwhile the work of reform had been proceeding in Austria.

The outstanding event was the creation of the new Bank of Issue. Some details of its history are included among the documents in the form of a memorandum by the Bank itself (page 90). The main features of its activity throughout the reconstruction period are as follows. Under the amended statutes it was made completely independent by the creation of a board not including any government official, and elected, with the exception of the President, by the shareholders. It was provided that its operations should be purely commercial; the federation, the provinces and the municipalities, could no longer issue paper money, or have recourse directly or indirectly to the Bank for their own needs, without paying in gold or securities the exchange value of the notes received. The issue of notes was to be kept within fixed limits, the metallic cover being increased by stages from 20 per cent to $33^1/_3$ per cent of the circulation, excluding loans by the former Bank to the State.

As has been seen above, the entire capital of the Bank — 30 million gold crowns, or about 1½ million pounds sterling — was subscribed internally in December 1922. The Constituent

Assembly of Shareholders met on December 22nd; on the day before, Dr. Reisch, formerly Finance Minister, was appointed President, and it was agreed between the Commissioner-General and the Government that an expert adviser to the Bank, with special powers, should be appointed until the moment when the functions of the Commissioner-General should come to an end. Legislation embodying the necessary amendments to the Statutes was passed by Parliament on April 28th. The adviser was thereby entitled to receive full information on all the activities of the Bank and to attend all meetings of the General Assembly, the Board of Directors and the Board of Management in a consultative capacity. He was entitled to be informed of all important questions and the decisions upon them, and he was given a definite power of veto in the acceptance of securities for the grant of loans and on any reduction in the part of the reserve to be held abroad in conformity with the Statutes.

The post of adviser was held successively by M. Charles Schnyder von Wartensee, Director of the Swiss National Bank, Dr. Anton van Gijn, formerly Minister of Finance of the Netherlands and Royal Commissioner to the " Nederlandsche Bank ", and by Mr. Charles Robert Kay, formerly Manager of the London Office of the National Bank of Turkey. Under the agreement concluded at the termination of the Commissioner-General's functions, the post is to be continued for another three years.

The advisership to the Bank was not provided in the Protocols and was instituted later by a special law. Apart from the independent judgment which the adviser was able to bring in shaping the policy of the bank, the office was valuable in creating confidence among foreign financial circles, and it afforded a precedent for the reconstruction of Hungary, where it also proved valuable.

It was in no small measure due to the cautious policy of the Bank that, from th moment when it began operations in January 1923 until unrestricted dollar exchange was established at Vienna in Jure 1925 and thereafter, the external value of the currency remained stable. The Bank rapidly accumulated a large stock of foreign exchange; its gold and foreign exchange reserve nearly trebled in the first year of its operations, after the first six months never fell below twice the amount of its original holdings, and when the control was removed was over four times that amount. The percentage of cover already stood at 38 per cent in June 1923, has since never fallen below that figure, and at the end of the period of reconstruction stood at nearly 60 per cent without deducting the former State Debt. In the spring of 1924, however, the Bank was faced by a banking crisis, and its policy of giving generous credit gave rise to considerable discussion at that time.

A stage in the monetary history of Austria was marked a year later, when on March 1st, 1925, the new currency was introduced, the value of the new unit — the schilling — being fixed in terms of gold. Thus a legal gold value for Austrian currency, so long desired, was officially established.

At the beginning, the Bank took over the comparatively low discount rate of 9 per cent from the former Bank. When the banking crisis came, the rate was increased in one day from 9 to 12 per cent and later again to 15 per cent; as the crisis passed it was gradually reduced, so that by the end of the reconstruction period it stood at 7½ per cent.

The monetary situation was reviewed monthly by the Commissioner-General, and contact was maintained between the President and the Adviser of the Bank on the one hand and the Financial Committee on the other. In one of its

later reports (February 14th, 1925, page 233) the Committee summarised its views on this part of the reconstruction work, and on certain aspects of the Bank's policy.

While the foundation of the Central Bank was the most important single step which was taken in the first half of 1923, a number of administrative and other reforms were gradually undertaken.

One of the most important was connected with the mechanism of control. Each month the Government drew up estimates for the following month. The practice of drawing up closed accounts for preceding months was introduced somewhat later. This principle was of capital importance in gradually enabling the Finance Ministry to reassume its control over the spending departments. It was maintained after the departure of the Commissioner-General and was used in the scheme for the financial reconstruction of Hungary and adopted by the Administrations of some other countries.

By July 7th, 44,871 officials had been dismissed, and, as the Provisional Delegation had estimated the number of dismissals up to July 1st at 50,000, this part of the work was almost up to the programme. The number of ministries was reduced from nine to seven, and out of a total of 211 sections in all ministries sixty-three were completely suppressed. The Telegraph and Telephone Administrations were fused with the Postal Administration. Certain privileges of Government employees in travelling at low railway fares were reduced or abolished. The Salt Monopoly was overhauled and prices raised; postal rates were raised by 50 per cent.

But the most urgent problem was the reorganisation of the railways.

the Commissioner-General and at a later stage the Financial Committee approved, had beneficial results, measured by the progressive reduction in the burden of the railways on the budget.

Balances on Working Account of the Railways

Balances on Working Account of the Railways	Million schillings
1923 : Deficit	36.6
1924 : Deficit	0.9
1925 : Surplus	4.2

Simultaneously with the general reorganisation of railways, the important question of electrification was taken up. In 1920 the Austrian Parliament had contemplated an extensive programme of work on the two principal railways in Western Austria. The work was delayed by lack of funds but was well advanced in certain districts. The Commissioner-General was asked to liberate the amount necessary to finish these two lines: 42 million gold crowns. He decided to do so, as it was estimated that an economy of 7,360,000 gold crowns would be effected annually.

In 1925 and 1926, the Austrian Government asked for further releases for this kind of work, which were agreed to by the Commissioner-General and the Financial Committee.

On March 29th, 1923, an agreement was concluded at Rome between the Austrian, Hungarian, Italian and Serb-Croat-Slovene Governments and the Southern Railway Company regarding the ultimate division of the line and the burden to be assumed by each party. The Austrian Government's agreement was made subject to the approval of the Commissioner-General, and an interpretation was secured which prevents excessive charges on the Austrian budget.

At the end of the first half-year of 1923 the progress of reforms had already had an effect on the budget. But the satisfactory situation then disclosed was still more due to the remarkable increase in revenue, particularly from direct taxation — far beyond the estimates of the Provisional Delegation, as is shown in the following table:

	First half-year 1923		
	Reform Scheme Estimate	Revised Figures of Provisional Budgets	Actual Results
	(milliards of paper crowns)		
Expenditure . .	4,315	4,453	4,273
Receipts	2,282	2,455	3,038
Deficit . .	2,033	1,998	1,235

The Provisional Delegation's programme had provided for a deficit of 2,033 milliards. The Commissioner-General, in approving each month the provisional monthly budgets, had authorised a deficit of 1,998 milliards, representing a saving of 35 milliards on the original programme. Moreover, being aware of the remarkable increase in the yield of taxation, he requested the Government to cover a portion of this deficit from its own resources, and had actually released only 1,732 milliards, leaving a further reserve of 266 milliards. In point of fact, the receipts were so satisfactory that the Government's actual deficit was no more than 1,235 milliards — *i.e.*, 497 milliards less than the releases, 763 milliards less than the monthly estimates authorised, and 798 milliards less than the reform scheme.

The fact was that with a general return of confidence the economic life of the country had adjusted itself more quickly than had been expected, with a consequent improvement in the capacity to pay both direct and indirect taxes. This is

shown by the returns for the Customs assigned to the service of the loan for which the actual receipts were nearly 25 per cent higher than the estimates. The revenue from direct taxes and from commodity taxes was more than double the estimates. On the other hand, the tax on railway traffic was far below the estimates, and all the monopolies showed a heavy loss. Still, on balance, the situation was very favourable, and, as the Council stated in its resolution of September 20th, exceeded the expectations of the previous year.

The economic development was also not negligible, although, as the Commissioner-General stated in his ninth report, it was in this direction that further progress was desirable during the next year. He summarised the position at the end of this period as follows:

> " I would call attention to the figures for *foreign trade* in July. The value of exports during that month was 77,000,000 gold crowns, as against an average for the second quarter of 73 millions and an average for the first quarter of 69 millions. This is an encouraging indication.
>
> "*The number of unemployed in receipt of assistance* at the end of August dropped to less than 84,000 (53,000 being in Vienna), as against 170,000 in February. This figure still, of course, means a considerable amount of suffering and imposes heavy burdens on the State. . .
>
> "*The cost of living* at the beginning of September was 3 per cent higher than in August but less than the figure a year ago at the beginning of the reconstruction period. *The total saving-bank deposits* are 13 times as great as the deposits in September 1922. The number of travellers who stayed at Vienna hotels in August was 45,000, as against an average of 30,000 during the preceding months.

> " It may therefore be said that, taken as a whole, the economic estimates of the Geneva programme are being carried fully into effect. The re-establishment of confidence, the restoration of the public finances and the stabilisation of the currency have actually created a favourable atmosphere in which the resources of private economy can be developed. Vienna has resumed her place as a great financial centre; the credit of private business has gained by the rehabilitation of public credit; and both at home and abroad confidence is now felt in the new Austrian currency — the stabilised crown."

This experience of the first complete year of reconstruction on the whole confirmed the prospect of ultimate success. The scheme had not only proved workable but had in practice shown results which surpassed the expectations formed of it. The loan required for its execution had been obtained, and the securities had far exceeded in value the original estimates on which it was issued. A beginning had been made with reforms, and the most serious problem — the reorganisation of the railways — had been carefully studied. There were some symptoms of improvement in the economic life of the country. The most serious questions which remained open were whether the administrative reforms and in particular the dismissal of officials would be effected as thoroughly as had been planned, whether the unexpected increase in the taxable capacity of the country would be maintained, and whether the economic disabilities inherent in the situation of the new Austria would not prove so great as to compromise the results obtained in the sphere of public finance.

3. *September* 1923 – *September* 1924.

The budget deficit in the first year (1923) of reconstruction had thus been smaller than had been anticipated. Early in

the second year it disappeared altogether, and no further releases were required or made by the Commissioner-General for this purpose. Yet when September 1924 came, in spite of the balanced budget, the Financial Committee did not feel justified in recommending, or the Council in deciding, that the control should be removed at the earliest date contemplated in the Protocols (December 31st, 1924). A new agreement was concluded providing for a higher budget level and for a gradual removal of control by stages and subject to the execution of a number of reforms which had been neglected.

In order to understand these decisions, it is necessary to recapitulate briefly the events of this period and to summarise the main features of the situation as it developed during this year.

The most striking fact, on which the Commissioner-General again and again insisted in his reports, was that no serious progress was being made with administrative reforms. The number of officials dismissed in the period July 1923 to July 1924 was only 23,460, in comparison with 44,870 dismissed from October 1922 to July 1923, bringing the total number up to 68,330 (not including 9,500 officials from the Southern Railway). Thus the total number of 100,000 agreed with the Delegation was not reached by the date appointed (July 1st, 1924). The earlier reductions were possible without drastic reorganisation of the administration. Further reduction meant real reform. This process, difficult in any case, was delayed by the elections which took place in the autumn of 1923 and the fact that the new Government and Parliament took time to settle down to work. When it did begin, the two most important measures — the reform of salaries and the settlement of the financial relations between the Central Government and the provinces — were not successful. During the period of currency depreciation, official salaries

had varied automatically with an index of the cost of living and were subject to various and variable additions in respect of allowances. As soon as more normal conditions were reached the Government realised that it was indispensable to repeal this system, both on economic and budgetary grounds. Such a change involved, however, a complete readjustment of official salaries. The salaries were too low on a comparison with the pre-war standard; but it was very difficult to find the money to raise them to that standard. The immediate savings on dismissals contributed little because of the high pension scales, which amounted in some cases to 100 per cent of the salaries earned. The Commissioner-General insisted that any additional sums required for salaries must be met out of economies effected through administrative reorganisation. In these circumstances the Government was unable to reach an agreement with its employees, and in December there was a strike of the Customs and postal officials. At intervals during this year there were renewed demands from various categories of officials and renewed negotiations; but no final settlement of the question was reached.

A similar delay occurred in the negotiations between the Central Government and the Provinces and Communes. The Delegation had specified in its programme the sums which in one form or another the Provinces or Communes might receive, these sums involving a progressive reduction of the subsidies granted by the Central Government. The Government had made provision in the Reconstruction Law for a proportional allocation of the yield from taxes between the Federation, Provinces and Communes. But, owing to the unexpectedly high yield of taxation, the Provinces and Communes were receiving in 1924 nearly double the expected amount; and this amount was further augmented by the yield of local rates, which had also been greatly increased.

The result was that the need for effecting economies was not obvious; certain provinces did not adequately reduce their administrative organisation; others employed their current funds in productive work on a large scale, and the State itself did not obtain enough of the money it raised.

In these circumstances the Government introduced in December 1923 a law reducing the basis of the subsidies but placing the finances of the Provinces and Communes on a stable foundation.

Prolonged negotiations took place first with the political parties, then in the Parliamentary Financial Committee and afterwards in a conference with the Provinces. Some of these independent bodies refused to accede to what the Commissioner-General considered the legitimate demands of the Government, and certain Provinces and Communes, under a constitutional law passed by a two-thirds majority, were in a position to compensate themselves for any loss under this head by increasing certain local taxes on rents.

It is not difficult to find the general reason why during 1924 the progress of reform slowed down and why the will to effect drastic economies seemed to have evaporated. The budgetary situation had an exceedingly favourable appearance. The deficit of 1923 was only 420 milliards instead of the contemplated 1,140 milliards. The monthly estimates had shown an aggregate of deficits for this period of 1,139 milliards, and approximately this sum was released by the Commissioner-General. The difference between this sum and the actual deficit of 420 milliards (about 700 milliards) had therefore been acquired by the Austrian Government for its free disposal.

During the first half of 1924 the situation seemed even more favourable. The actual deficit was only 105 milliards (instead of 306 milliards contemplated by the Delegation) and the Government was easily enabled to meet this small

sum out of the amounts it had accumulated from the unused releases of the previous year. The result was that by July 1924 it looked as if the budget was practically in equilibrium and no sums would be required out of the balance of the loan, which amounted at that date to about 3,055 milliard paper crowns (*i.e.*, 2½ million gold crowns, or 34.6 per cent of the original reconstruction loan).

A careful examination of how this result had been attained revealed, however, that the situation had in it elements of danger. The principle on which the reconstruction plan of the Delegation had been based was that the deficit should be met mainly by reductions in expenditure, increases in taxation being carefully kept within the taxable capacity of the country. To take precise figures, the Delegation, in order to secure a permanent and lasting reduction in a deficit originally estimated at 457 million gold crowns (672–215), had called for economies to the extent of 322 million gold crowns (more than 70 per cent) and increased taxation to the extent of 135 million gold crowns (less than 30 per cent).

In contrast with this plan, expenditure during the year 1923 had only been reduced by about 4 per cent. On the other hand, the actual amount payable by the Austrian taxpayer to the Central Government or to the Provinces had increased in the same period by 106 per cent. This was due in part to the fact that taxes had been increased, and in part to the unexpectedly high rise in all State revenues during the period of the adjustment of private incomes to the trade boom through which Austria passed.

In view of this situation, the Commissioner-General pointed out in February 1924 (14th report) that a serious economy campaign should be started. He said:

> "Although revenue still covers (and for January I think more than covers) the requirements of the

Government, it is most urgent that a serious economy campaign should be set on foot. Should an economic crisis follow the activity of the last few months, its effect would undoubtedly be felt on the yield from direct and indirect taxation; the collection of direct taxes would become much more uncertain. In view of the fact that expenditure has scarcely decreased at all, we might then find ourselves in a highly unsatisfactory position.

" I would add that the present situation seems to me to involve another danger. There is no doubt that the great increase in public revenue — that is to say, in duties and taxes — is bound to involve a rise in the cost of living; indeed, I think it safe to assert that its effect is already being definitely felt. This economic movement cannot fail to exercise a serious influence on the expenditure of the Central Government, because it entails not merely an increase in expenditure in kind but also continual demands for increases in salary on the part of the officials. This is yet another danger to the permanent equilibrium contemplated in the Geneva Protocols, but it is towards this equilibrium that all our efforts must be directed. "

The relaxation of effort in Government circles unfortunately had its counterpart in the banking and financial crisis which occurred in 1924. During 1923, there had been an enormous speculative rise on the Stock Exchange, the value of shares in some cases increasing 400 per cent in a few months. The Stock Exchange showed the first signs of weakness at the end of September 1923. From about the same time the bills discounted by the Austrian National Bank began to increase. The boom on the Stock Exchange came definitely to an end in January 1924. The situation became alarming and developed into a panic as a result of the failure in April 1924 of the bear

speculation on the French franc. Within one month the value of Austrian stocks fell by 27 per cent. Money was advanced out of the loan to the National Bank to finance private credit syndicates and support the market. The slump on the Stock Exchange led to the withdrawal of foreign credit and a considerable tightness of credit; the National Bank delayed until June before it raised its discount rate in order to protect its reserve, which was considerably diminished, and meanwhile pursued a policy as regards bills submitted for discount which was afterwards considered to have been too liberal. The crisis is described in more detail in a subsequent report of the Financial Committee (page 221).

Meanwhile there were obvious signs that the general economic position had deteriorated since the boom of the previous year, to which the financial crisis put an end. The adverse trade balance was far greater during the first half of 1924 than during the corresponding period of 1923. After a seasonal decrease during the spring and early summer, the number of unemployed began to increase from July onwards, when the number stood at 63,479, and reached 154,416 by the end of the year. This phenomenon was seasonal only in part; there were signs that the trade slump and the financial crisis might be followed by an industrial crisis.

All these symptoms gave rise to a general anxiety as to whether the results of financial reconstruction would be compromised, and, in particular, whether the high level of budget expenditure could be maintained. That level could only be justified if the high yield from taxation could be considered permanent. But the economic difficulties made this doubtful, chiefly for two reasons. It was likely on grounds of general experience that with a trade slump revenue would fall off. On the other hand, one of the causes of Austria's economic difficulties was the fact that trade and industry were too heavily burdened by taxation. It was

just when the first signs of trade depression made themselves felt that the Austrian Government raised the question of the level of the budget and the employment of the unexpended portion of the loan, in order to stimulate the economic life of the country, and it was under the disquieting influence of the financial crisis and the trade slump that the questions of budget level, employment of the loan and decontrol were considered in the summer and autumn by the Financial Committee. The circumstances briefly described may serve to explain why the Committee and the Council adopted a prudent policy. It remains only to chronicle briefly the course of the negotiations and the decision reached.

The difference in the points of view of the Government and of the Financial Committee as to the level on which a budget equilibrium could be regarded as safe was brought to a head by a definite application from the Government, on March 10th, 1924, for the release of a part of the reconstruction loan for productive investment in aid of the general economic situation, on the ground that it was not, and would not be, needed for its previous purpose, that of meeting budget deficits.

After a study of the Austrian financial position, and discussions with representatives of the Austrian Government at Geneva, the Financial Committee and the Commissioner-General presented a joint report on this application to the Council on June 14th (page 213).

The report dealt with two questions: (*a*) the level at which budget equilibrium should be sought; (*b*) the disposal of any loan surplus not required to meet budget deficits.

As regards the level for budget equilibrium, the Austrian Government had agreed with the Delegation of the League of Nations in 1922 that the Austrian budget should be balanced at 350 million gold crowns. This figure was not,

however, necessarily intended to be immutable. On the contrary, it had been specifically recognised that it might be reconsidered in the light of the observations of the Commissioner-General on the development of Austria.

The report of June 1924 concluded that the figure of 350 million gold crowns should be raised but that no definite figure could yet be recommended in substitution. Doubt, moreover, was expressed whether the ultimate figure could be brought high enough to support the present expenditure of Austria, taking into account the increases in this expenditure now under consideration. The need for urgent progress with administrative reform if budget equilibrium were to be maintained was strongly urged, as was the necessity for a standard budget figure as a basis for current administrative policy.

As regards the disposal of the loan the report arrived at the following conclusion:

> "The loan is hypothecated, in the first instance, not only by the terms of the Protocols but by the conditions of the prospectuses, which constitute an immutable obligation to the bondholder, to meeting budget deficits until the time when a balanced budget is assured. It would therefore, in our view, not only be inconsistent with the main principle of the reconstruction scheme and with the engagements to the Council and the Guaranteeing Powers, but a breach of faith with the bondholders, if any part of the loan money were so invested that it would not be safely and readily available for its primary purpose, until the Council is certain that it will not be required for that purpose. This moment has clearly not yet arrived.
>
> "Subject to this, we think that, when the Council is confident that the money will not be required for budget

deficits, the question might well be considered at that time, and with due regard to the several rights and interests involved, in what way the surplus, if any, can be used in the interests of Austria (subject, of course, to the control of the employment of these sums as contemplated both by the Protocols and by the resolution of March 12th)."

Both the Financial Committee and the Commissioner-General considered that further enquiry was desirable, and, the Council approving, a delegation, consisting of seven members of the Committee, visited Vienna in August and September 1924. A comprehensive enquiry was conducted by this Delegation, in collaboration with the Commissioner-General, into the whole financial and monetary position of the country, and its results were embodied in a final report (page 218) on September 15th, 1924.

This document summarises the development of the situation during the year. After reviewing certain signs of general improvement in the economic life of the country due to financial reconstruction, the report concludes that the effects of the financial crisis had been to accentuate the need, both for agriculture and industry, of foreign credits, and particularly of long-term credits. The crisis had caused the withdrawal of a considerable amount of foreign credits, and their return was hindered by the methods of collecting revenue and the burden of taxation. The report called attention to the dangerous economic effects of certain high taxes, such as the tax on limited liability companies and the Banken- und Valutenumsatzsteuern, and also recommended that the rent restriction laws should be gradually modified in order to afford a sound basis for mortgages on buildings.

The Financial Committee also studied the monetary situation. It stated as its opinion that it was highly desirable

that a fresh monetary unit should be adopted and that the national currency should be fixed on a gold or gold-exchange basis, and also that the balance-sheets of limited liability companies should be drawn up and published on a gold basis. It further declared that, in its opinion, the National Bank should have raised its rate of discount at an earlier date (the rate had been raised from 9 to 12 per cent in June and to 15 per cent in August). The Committee expressed its entire agreement with the National Bank's decision to exercise in future very strict discrimination as regards the bills submitted for discount. It also declared that, in its opinion, the movement of prices as well as the rates of exchange should be a matter to which the authorities responsible for the policy of the Bank of Issue should give their constant attention.

Most of these points were covered by an agreement reached between the Austrian Government and the Financial Committee and Commissioner-General, in which it was also agreed that measures should be taken to permit the free dealing in foreign exchanges, to limit the amount for the payment of which silver coinage might be legally tendered, and to create a small Executive Committee within the National Bank to deal with emergencies.

As regards the budget, the Financial Committee, after pointing out that the original agreement of 1922 had never been intended to constitute an immutable plan, summarised the situation as follows:

> " During the whole of 1923 and the first seven months of 1924, the actual half-yearly deficits were always lower than the estimates made in 1922, but such deficits represented expenditure and receipts considerably higher than were provided for in the scheme.
>
> " Thus, starting from an annual basis of 672 million

Nearly two years passed before those conditions were entirely fulfilled.

4. *September* 1924 – *June* 1926.

The history these years is that of the gradual execution of the reforms agreed to in September 1924. Apart from this, the most interesting event in this period was an authoritative enquiry made into the *economic* future of the country.

During the whole of 1924 and the spring of 1925, Austria felt acutely the effects of the trade depression, which, in conjunction with the financial crisis, had already given cause for anxiety in the spring of 1924.

Its chief symptom was an alarming increase in the number of unemployed, which rose from 74,000 in September 1924 to 189,000 in March 1925, the highest figure reached during the reconstruction period. All industries were not affected in the same degree. The metal and wood industries showed a certain chronic unemployment; on the other hand, the rubber, paper and chemical industries could be said to be in a sound condition. Unemployment was also chronic among banks and clerical commercial employees. Bankruptcies were very frequent amongst commercial firms, especially amongst small merchants: 61 in 1913; 448 in 1924; 699 in the first four months of 1925. The figures for judicial compositions were: 293 in 1913; 2,546 in 1924; and 1,257 in the first four months of 1925. The position of the trade balance was equally alarming. In the first half-year of 1923 the trade deficit had only amounted to 287 million gold crowns; in the following half-years it had reached 510, 521 and 493 million gold crowns respectively — a level which many believed to be too high for so poor a country.

It was obvious that grave anxiety regarding the economic

future of a country in the situation of Austria could not fail to have a political aspect. The problem of the " viability " of Austria was widely canvassed in the European Press, giving rise to movements and counter-movements of a political character.

More directly relevant to the task of financial reconstruction was the possibility that the work might be compromised by economic difficulties. In the event, the Austrian Government itself, hoping that tariff agreements with their neighbours might thus be facilitated, requested the Council to arrange an enquiry into the economic situation of the country. In June 1925 the Council accordingly appointed Mr. W. T. Layton, C.H., and Professor Charles Rist for this purpose, their terms of reference being to ascertain the influence which the economic conditions of the country might have upon the work of financial reconstruction undertaken under the auspices of the League.

Their report [1], a summary of which is included in this document (page 241), was presented at the September meeting of the Council.

It will be seen that the two experts took, on the whole, an encouraging view of the situation. They held definitely that there was nothing in the economic position which need cause the Council to hesitate in declaring financial stability assured as soon as the present financial criteria were satisfied. Stabilisation had given a solid foundation for Austrian development. In doing so it had necessarily disclosed the weakness of certain Austrian industries, which needed to adjust themselves to the new conditions by a reduction of staff. The recent increase in unemployment reflected this overdue adjustment and not a decline of trade, which, on the

1 " The Economic Situation of Austria". Report presented to the Council of the League of Nations by W. T. Layton, C.H., and Charles Rist (C.440 (1) M.162 (1) 1925.)

contrary, was now increasing. There was no reason why Austria should not achieve a satisfactory economic position. But for this it was essential that her credit should be maintained, and also that tariff policies should permit an extension of her foreign trade.

In order that Austrian reconstruction might be brought to a successful conclusion, two conditions were indispensable:

> " The first of these is obviously the maintenance of a financial policy of strict budgetary equilibrium and monetary stability. This policy, which was inaugurated in 1922 with the help of the League of Nations, has been and still is the indispensable foundation of any permanent improvement.
>
> " A second condition is the continuation of the work already begun in the direction of reducing cost prices throughout industry. The reduction in purchasing power all over the world means that in every country competition is keener than before the war, and that the reward will go only to those who can succeed in cutting their costs to the minimum by a combination of economy, efficient administration and scientific development.
>
> " Austria was the first country in Europe to carry through a really successful programme of monetary stabilisation, and later reforms in other countries have been largely based on the model thus set. She could to-day perform a service which would be at least as full of hope for the future by initiating a new commercial policy based on the ideal of economic co-operation rather than that of narrow self-interest. If this policy were indeed realised, its beneficial results would not be limited to the Danubian States alone but would soon make themselves felt throughout the length and breadth of the European continent. " (*Layton-Rist Report*, page 45.)

The Economic Committee of the League examined the conclusions of the Layton-Rist report at Geneva at the end of November 1925. The main question considered was the possibility of securing the modification of the tariff policies of the Succession States of the old Austro-Hungarian Empire. A system of preferential tariffs between Austria and all or some of these States had been suggested, but the difficulties proved very great and the idea was not embodied in any concrete proposal. The Committee finally submitted the following recommendations, which were approved by the Council on December 9th, 1925:

> " (1) The improvement of Austria's agricultural output would seem to be the most essential remedy for the shortage in her food supply and should be promoted by a suitable system of long-term credits.
>
> " (2) In order to extend those further markets which Austria requires, notably in her relations with the States which were formed out of or have received part of the former Austro-Hungarian territories, Austria and the States in question should be invited to conclude among themselves commercial agreements of the closest possible character which would by suitable means satisfy the needs of each State without affecting any obligations which it may have assumed towards other States.
>
> " (3) As regards other States the Committee is of opinion that they should be invited to seek means — either when their commercial conventions with Austria come to be renewed or by readjusting those conventions before that date, or by other methods — of completing the economic reconstruction of Austria by extending the outlets for Austrian production and trade.
>
> " (4) The Committee is further of opinion that the

attention of those of the Central European States which have not yet ratified the Convention of 1923 on Customs Formalities be drawn to the urgent necessity of expediting ratification in view especially of the prejudice caused to their commercial relations with Austria by a continuance of the present state of instability. " (See page 257.)

The recommendation of the Economic Committee that something should be done by a progressive reduction of tariffs to procure fresh markets for Austrian exports has not so far been specifically carried into effect. The position has, however, been somewhat improved by the conclusion of commercial agreements between Austria and her neighbours during the latter half of 1925 and the first half of 1926 —*e.g.*, the treaty of commerce which came into force with the Kingdom of the Serbs, Croats and Slovenes on September 16th, 1925, and the commercial treaty with Hungary signed on February 27th, 1926.

The experts' report was both reassuring and encouraging. It removed some of the preoccupations which had prevented an immediate consideration of decontrol in September 1924. Moreover, progress was made with regard to the reforms embodied in the agreement of that date with the Financial Committee. Thus, in its report to the Council of February 14th, 1925 (page 233), the Financial Committee observed that a number of the measures required under the September agreement had been taken. At the same time the Committee expressed its sense of the extreme importance of the prompt and complete execution of the remaining requirements of the agreement. The Government was urged to take steps to centralise the Government receipts and payments at the Austrian National Bank, which should be responsible for the cash transactions of the State, and to reorganise the Austrian

Ministry of Finance in such a way as to enable it to exercise adequate control over the spending departments.

With regard to the Federal Audit Office, the Committee pointed out the advantage of a control by that office over the State enterprises and of co-operation with the Commissioner-General. The Committee finally stated that it was glad to understand that the Austrian Government was renewing negotiations with the provinces in regard to the administrative, financial and fiscal relations of the State and the provinces.

By July 31st, 1925, the reduction of the number of Government officials amounted to 77,900 (not including 10,539 officials dismissed from the Southern Railway). Laws introducing several important reforms had been voted by Parliament. The main object of these bills was to fix the financial, constitutional and administrative relations between the Federation and the Provinces and to solve the difficulties which have been already described. They deal particularly with the rights of autonomous organisations to levy taxes, with the amalgamation of the Federal with the Provincial administration and the control of the financial administration of the Provinces by the Central Accounting Department. As a result, the Commissioner-General was able, on August 11th, 1925, to modify the control as contemplated in the agreement of September 1924.

Thus, during the year from September 1924 to September 1925 the situation had greatly improved. In these circumstances the Council, on September 10th, 1925 (page 251), on the advice of the Financial Committee (page 247), laid down in detail the conditions under which the control was to be brought to an end. The modified control described above was to be continued till the end of the year. As from January 1st, 1926, the control of the budget was to cease altogether, the Commissioner-General being no longer required to reside

in Vienna after that date, and his duties being limited to a supervision of the assigned revenues and the expenditure of the balance of the reconstruction loan. The Council also decided that, when the 1926 budget had been passed within the agreed limits and the closed accounts for 1925 had been examined, the office of the Commissioner-General would be terminated. These decisions were subject to the retention of a Bank adviser for three years after the termination of the Commissioner-General's office, and to the Council being given the right to re-establish control (by a three-quarters majority, Austria abstaining) in the unlikely event of the assigned revenues being insufficient to assure the service of the loan or the equilibrium of the budget being seriously endangered. The object of these two new conditions was to maintain external confidence in the Austrian position and improve Austrian credit.

The conditions were duly fulfilled. A general meeting of the Bank accepted the proposal as to the retention of the Bank adviser on November 4th, and the necessary law was ratified on December 3rd. The National Council also, on October 4th, agreed to the proposal as to the right of the Council to re-establish the control, and the necessary declaration to this effect was duly made by the Chancellor to the Council on December 9th.

The control of the Austrian budget accordingly ceased on December 31st, 1925. All that remained was the control of the assigned revenues and of the balance of the reconstruction loan, which for the time still remained in the hands of the Commissioner-General.

In the meantime the Financial Committee, in its meeting of December 3rd - 8th, arranged with the parties concerned — the Austrian Government, the Trustees and the Committee of Control — the system under which these two duties should be discharged after the departure of the Commissioner-

General. It was agreed that the assigned revenues should then be under the control of the Trustees, and the expenditure of the balance of the loan under the Financial Committee. At the same time it was agreed with the Committee of Control that this Committee, which had hitherto communicated with the Austrian Government only through the Commissioner-General, should on his departure communicate direct.

This system was approved by the Council on December 9th, and all arrangements were ready for the termination of the Commissioner-General's office as soon as the closed accounts for 1925 were available and had been examined.

This final step was duly taken by the Council on June 9th, 1926 (page 278), after examination of the closed accounts for 1925 by the Financial Committee in its meeting of June 3rd - 9th (page 276).

The Financial Committee appointed M. Dubois to administer the Reconstruction Loan Account, from which money will be released in accordance with programmes approved by the Financial Committee — a duty which will presumably come to an end in the next year or two with the expenditure of the last of the money. The Trustees took over the responsibilities for the control of the assigned revenues — a duty which will remain till the loan is completely amortised, M. Rost van Tonningen, formerly on Dr. Zimmerman's staff, continues to reside in Vienna as the agent of both M. Dubois and the Trustees.

The decision of the Council became effective, under the conditions previously agreed, on June 30th. On that date Dr. Zimmerman and his colleague, Mr. Jeremiah Smith, at Budapest [1] simultaneously relinquished their office on the successful completion of their tasks.

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1 "Financial Reconstruction of Hungary. — General Survey and Principal Documents" (1926).

Some Figures.

Before concluding, it may be interesting to quote a few figures showing the result of the reconstruction work.

The results with regard to the budget can be gathered by a comparison of the annual closed accounts for the last three years, as shown in the following table:

	1923	1924	1925
	(millions of schillings)		
Budget Administration:			
(*a*) Ordinary transactions:			
Expenditure . . .	779.65	809.99	741.38
Receipts	697.45	900.62	908.47
Surplus. . . .	—	+ 90.63	+167.09
Deficit	– 82.20	—	—
(*b*) Investments	– 76.08	–103.67	– 90.64
Budget surplus.	—	—	+ 76.45
Budget deficit .	– 158.28	– 13.04	—

The deficit on current transactions, which amounted to 82.2 million schillings in 1923, completely disappeared in 1924. In fact, a surplus was realised amounting to 90.63 million schillings, which last year increased to 167.09 millions.

Ordinary transactions for 1925 thus show an improvement of 249.29 million schillings as compared with 1923.

The surplus on ordinary transactions realised in 1924 covered all but about 13 million schillings of the total of 103.67 millions spent on investments, while the surplus in 1925 covered the whole of the capital expenditure, amounting to 90.64 millions. Indeed, the last financial year shows

a surplus of 76.45 million schillings over expenditure on investments.

The position is therefore very satisfactory.

A further useful comparison is that of the figures of the monthly closed accounts for each half-year as compared with the estimates of the Provisional Delegation. (These figures, drawn up according to a different system, cannot be compared with the figures given above for the annual closed accounts.)

		Receipts		Expenditure	
		Actual	Estimated in Provisional Delegation's Scheme	Actual	Estimated in Provisional Delegation's Scheme
		(millions of schillings)			
1923	First half-year.	248.4	288.0	371.9	431.8
	Second half-year	336.0	301.8	370.3	416.0
1924	First half-year .	453.7	357.0	464.2	387.6
	Second half-year	416.5	383.4	447.7	361.7
1925	First half-year .	433.5	401.4	447.5	315.8
	Second half-year	447.9	401.4	398.2	315.8

The total number of officials dismissed up to July 1926, including those of the Südbahn, amounts to nearly 96,000.

The yield from the assigned revenues during 1925 and the first half of 1926 amounts to four times the service of the reconstruction loan. In those countries which have returned to a gold currency, the loan is quoted above par.

As regards the use made of the loan, the following statement, taken from the Forty-second Report of the Commissioner-General, is illuminating, as it is not generally realised that only 13 per cent of the yield of the loan has been used to cover deficits on current expenditure:

The net yield of the loan (879.8 million schillings) has been used as follows:

	Million schillings
1. For the repayment of credits granted during the inflation period	175.60
2. Security for the service of the loan for six months	51.50
3. Cover for investment expenditure	332.56
4. Cover for current deficits *(about 13 per cent of the total loan)*	115.44

Accordingly the amount unused on June 30th, 1926, was 208.33, which, with accumulated interest, had risen to 217.60

Comments and Conclusions.

It conclusion, it may be convenient to note, in summary form, some of the main features of this first great experiment in financial reconstruction and international action, and some of the tentative conclusions suggested by the experience of its working.

1. The scheme was, in the financial sphere, comprehensive and complete. To stop inflation, it did not merely remove its immediate cause (unrestricted governmental note-printing) by the transference of the monopoly of note issue to a National Bank independent of the Government and working under carefully drawn statutes: it dealt with its secondary and more important cause — the excess of State expenditure over revenue — and provided for budget equilibrium. The machinery for securing performance was equally complete and comprehensive. At the top was the Council of the League (with its sub-committee the Austrian Committee) supervising the whole task, particularly in its political aspects; assisting

the Council were its technical Committees, Financial and Economic, meeting every three months, and its permanent officers, with legal and other qualifications; while in Austria the whole plan was supervised by the resident Commissioner-General.

And this plan, together with the mechanism for its execution, was prepared, adopted both by the Council and the countries represented on it and by the Austrian legislature, and published to the world *at once and as a whole*. There was no attempt to introduce items of reform piecemeal, with the danger that it would break down at its most difficult point. On the contrary, adoption of the more difficult features was made easier by the impossibility of picking and choosing and the knowledge that the plan must go through as a whole or not at all; and confidence was inspired by knowledge of the complete plan and its adoption as a whole, as it could not have been had certain integral portions remained unknown or uncertain.

It should be added that the Protocol provided for *pleins pouvoirs* to the Government for the execution of the scheme.

2. Stabilisation of the currency, while simultaneous with a *plan* of budget reform, *preceded* its accomplishment. The resolutions of the Brussels Conference of September 1920 suggested that the way to currency stabilisation was through budget equilibrium. But in 1920, European currencies, though depreciated, were not demoralised; and budgets, though in deficit, were not in chaos. With the Austrian crown, reduced as it was in August 1922 to about one-fifteen-thousandth part of its gold value, and the budget deficit, mainly as a consequence of the currency instability, incapable of calculation, no such order of events was possible. It was impossible to reform the budget while the currency was falling, for an estimate made one day was wildly wrong the next. Most of the costs of government follow quickly the

changes in the purchasing value of the currency; changes in the receipts from revenue follow much more slowly. It was essential therefore to stop the uncovered inflationary issue at once; and, in fact, such issues stopped by November 18th, 1922. Budget equilibrium followed; it did not precede.

3. The cessation of unrestricted note-issuing in November 1922 did not mean that the Austrian currency was limited to its previous figure. It meant that further issues were only legally permissible on the basis of the maintenance of a statutory proportion of gold and foreign exchange; the possibilities of increase were therefore dependent upon the inflow of foreign exchange. Within this limit the Bank was free legally to pursue its own policy. In fact, while maintaining the external value of the crown by the free sale of foreign exchange at a stable rate (first in relation to the Swiss franc and then to the dollar), the Bank also kept internal prices reasonably stable by its note-issue policy. The inflow of foreign exchange with renewed confidence was, in fact, such as to have made a much larger note-issue legally permissible. It would have been impossible, and from every point of view unnecessary and undesirable, to restrict the notes issued to the number at the date of stabilisation, for this number would have been quite inadequate to the normal needs of the country. In fact, in the first two years since the stabilisation the notes have increased more than fourfold. But this has not been "inflation" in the sense in which that word denotes an undesirable process, for the increase was made without affecting or endangering either the external value of the crown or raising internal prices. The fact is that, during later stages of rapid depreciation, the fall in exchange value largely outruns the increasing number of notes; in other words, the gold value of the total currency rapidly falls. In August 1922 the gold value was only one-fifteen-thousandth of what it had been in 1913. This was due partly to the speculative anticipation

of future inflation, partly to an increased "velocity of circulation" (extension of credit payments, etc.), partly to a reduction of transactions, and, partly to the use of foreign currencies as a medium. The net result was that the currency in circulation when the League plan was started was quite inadequate to what were bound to be the normal needs of the country.

This was recognised and turned to good account. Unregulated issue was stopped on November 18th, 1922; but as there was a difficult time ahead and it was known that expanding needs would absorb and demand extra currency, a considerable number of notes was printed just before November 18th and kept in hand to be used in the succeeding months. This proved an invaluable resource, capable of employment without in any way depreciating either the external or internal value of the crown. It was a bold expedient, fully justified by results.

It is also interesting to note that the depreciation of the crown could be stopped, not with the decision in November to stop printing but directly there was some hope of a real scheme of League reform — a full two months before.

The effect of the inflow of foreign exchange from the reconstruction loan, and the homeward flight of Austrian capital with the return of confidence, were both relied upon in the currency provisions. They proved much more than sufficient, and, had new notes been issued up to the maximum proportion allowed by the Statutes in relation to foreign exchange cover, the currency must have become excessive, internal prices would have risen, and a fall in exchange value would only have been stopped after a drain on the exchange cover and much disturbance. But without these two sources of inflowing foreign exchange the statutory provisions limiting note issue would have starved the country of currency. The external "international" loan was, from this point of

view, as well as from others, an essential element; and the Austrian scheme offered in this respect a dangerous example to any country which might contemplate dispensing with such a loan.

4. These indirect results of the loan — in evoking confidence, in stimulating the homeward flight of capital—proved of greater importance than its primary purpose of meeting budget deficits during the period of budget reform. For equilibrium between ordinary expenditure and receipts was attained at a very early date. If we take the whole period of reform, the ordinary receipts from revenue have considerably exceeded ordinary expenditure (even including in the latter the service of the loan itself). The loan has therefore in effect been available partly for clearing off capital burdens (such as the advances received early in 1922), and partly for capital investment designed to increase the productive capacity of the country.

5. This remarkable result has been reached not by a reduction in expenditure but by the rapid expansion of revenue as soon as the economy of the country had a sound currency basis, and the taxing authorities had a stable medium of assessment. It was never contemplated that an actual reduction in the total expenditure would be practicable or indeed desirable. Large economies have indeed been made (though not all that were contemplated or were possible), but they have been offset by increased — and sometimes much needed — expenditure in other directions. In this respect the scheme, as worked out, shows a marked difference from the scheme as outlined in the original report. The standard budget contemplated in 1922 was on a basis of 350 million gold crowns; the one accepted in 1926 was 515 million gold crowns. The level taken in 1922 was, however, intentionally a very conservative one. Probably no one thought that it could be exactly adhered to: but it was

necessary to have a severe standard by which to test and enforce the progress of reforms. In the supervision of the scheme by the Financial Committee and the decision as to when the financial stability could be considered as assured, the most difficult problem was that of the level at which the budget could be regarded as safely balanced. Admittedly it was much higher than the figure originally fixed. But it was by no means certain that the high level reached by the revenues in 1923 and 1924 was not so high as to impose too great a strain on the taxable capacity of the country. It was to this point that the special enquiry by the Financial Committee in August 1924 was mainly directed.

6. The economic reconstruction of Austria was no part of the direct task undertaken by the League. The object of the League scheme was to provide a sound basis on which Austria herself would build up the best economic structure possible in the circumstances. The possibility of League help in certain portions of this task was not excluded, but it was no part of the original task, and in fact it has not so far proved effective. The situation is best studied in the Layton-Rist report. It is sufficient to say here that the economic distress of adjustment has been considerable, though, as will be seen by a reference to the first report of the Financial Committee (page 173), much less than was originally contemplated. Trade depression, as indicated in particular by the unemployment figures, remains serious and shows no sign of improvement. It is notable that, as in some other cases, the effect of post-stabilisation unemployment was experienced not in the year immediately following on the stabilisation but a full year and more later.

7. The inevitable, and necessary, economic adjustments were indeed both retarded and disguised by the boom resulting from the burst of confidence with which the scheme was

launched and the sudden inflow of foreign money both from the loan and the recall of money previously sent abroad.

8. The restoration of the Austrian currency was the first instance of a successful effort to restore one of the currencies which after the war went completely to pieces — fell to less than one-ten-thousandth part of their value. Of the others which fell into this category — the German, the Hungarian, the Polish and the Russian — the Hungarian has been restored by a similar League scheme, and the German in conjunction with an international action which in many of its most important features was based on the experience in Austria.

9. In assessing the place of the Austrian scheme in the post-war financial history of Europe, it is important to study its relation to the German scheme drawn up by the "Committee of Experts" and subsequently adopted at the London Conference in 1924. This is no place to examine this question in detail, but the student may find it useful to have his attention drawn to the following points of resemblance, influence or relevant experience:

(*a*) The demonstration of the recuperative capacity of a country disorganised by complete currency depreciation which was given by the sudden prosperity of Austria in 1923 (the first instance at that date) was useful in assisting the Committee in its primary work of fixing upon reparation payments which would at once be acceptable to the creditors and regarded as practicable by those on whom the financial recovery of Germany depended.

(*b*) The technical principles — the transfer of the monopoly of note-issue to an independent Bank of Issue, stabilisation in relation to gold, budget equilibrium — were the easier of adoption because of the proved experience in Austria.

(*c*) The protracted difference of opinion as to whether the "total obligation" of Germany should be fixed at once and

for all time or whether this question should be postponed till war debts could be discussed as a whole and experience of the capacity of a restored Germany as a whole had been obtained, was settled by a practical compromise. The obligations were fixed not " for all time " but " for a considerable period ", which was defined as the " period which lenders and investors will have in mind ". Experience had shown in Austria that certainty for such a period was a sufficient basis for confidence and financial recovery. The analogy of Hungary, where definite reparation payments were fixed for 20 years, in the scheme which was negotiated a few months before the German one, is even closer.

(*d*) The main system of " control " was different. In both Austria and Hungary the whole budget was under the control of a Commissioner-General. In Germany, for obvious reasons, no such control was considered necessary or practicable. Yet there was one feature of the League control system which proved a useful precedent for the German scheme. There had been a serious difference of opinion as to whether the reparation obligation when fixed should be secured by the control of assigned revenues or not. It had been urged, on the one side, that the creditor would not be assured without such control, and, on the other, that control would mean wasteful interference and friction. In Austria and Hungary the League had had the same problem in securing the service of the " reconstruction loans ". The solution had been to assign revenues whose normal yield would largely exceed the obligation they secured, any balance being at once returned to the Government. So long as the yield gave a safe margin (which in normal circumstances would be always) it was possible to limit the " control " to little more than a statistical observation of the results without any interference in the management. The Committee took full evidence as to the working of this system in Austria and incorporated the main

principles in their own arrangements for the control of the State revenues which were (with certain other securities) designed to assure the reparation payments.

(*e*) Lastly, it is well to refer to one provision which is, strictly, out of place in a description of the Austrian scheme and is described more fully and more appropriately in the companion volume on Hungary [1]. The principle of " transfer", technically perhaps the most interesting feature of the German scheme, was, in fact, invented for and included in the Hungarian scheme which was approved and published shortly before the consideration of the German scheme began.

10. It may be well to comment upon some features of the League " control ", on which there has been some misunderstanding. It has sometimes been stated that the League, or the States who constitute its executive authority, have seized the occasion of a country's need to institute a foreign tyranny, to destroy the sovereignty of the assisted State, to replace a native by an external government. Nothing could be further from the facts. The greatest care has been taken to create a system at once elastic and, so far as possible, invisible; a system which gives just so much control as, at any moment, is essential to secure the desired object and no more; a method which automatically means less interference as the need is less. The application of this principle to the control of the assigned revenues is shown in the preceding paragraph. The same is true as to the practical working of the control of the budget. If and when the progress made by the Government in executing the agreed reform programme has been at any moment inadequate, the Commissioner-General's intervention has at once become more active; just so far as the Government has proved able to carry through the reforms

[1] " Financial Reconstruction of Hungary. — General Survey and Principal Documents " (1926).

satisfactorily, it has become nominal. In the Hungarian Protocol, indeed, drafted after experience in Austria, this principle is exactly defined: "The Commissioner-General will not, so long as the progress of the reform scheme is up to or in advance of the programme, . . . object to particular items of expense or require modification of the taxation system except on the ground that the particular expense or feature of the taxation system is such (*e.g.*, by involving serious later commitments) as in his opinion to compromise the later progress of the scheme; but if the progress of reform is at any time behind what is prescribed . . . he may . . . object to any item of expense and may also, or alternatively, require the Hungarian Government to increase the yield of existing taxation or to impose new taxes". As Hungary, in fact, attained budget equilibrium within a few months, the practical effect of this provision was that, through almost the whole of his term of office, the Commissioner-General did not formally and of right control the Hungarian budget, though personal confidence in him resulted in the Government constantly asking his opinion as a friendly adviser.

So, too, the Protocols provided for the termination of the office of Commissioner-General as soon as financial stability was assured — a provision punctually and promptly executed by the decision taking effect on June 30th, 1926.

The same desire to avoid unnecessary foreign interference is evident in the third element in the "control" — the appointment of Bank advisers. These officers have, both in Austria and in Hungary, served as officers of the National Banks and not of the League. Their advice has been the more successful for being at once tactful, invisible and derived from an internal authority.

If, however, control is never more than is essential in the interests of the reconstruction itself, precautions have been

taken that it shall be sufficient. If financial stability should be again endangered — that is, if, but only if, the Government should prove unable to maintain the stability now attained on a sound basis — the office of Commissioner-General could be re-established at any date prior to 1936. In the meantime, the mere existence of such a provision might well prove an element of support to a Government struggling in a difficult period to keep its expenditure within its resources.

One other misunderstanding needs removing. The similarity in the two principal pieces of financial work undertaken by the League has sometimes suggested that the particular system of control adopted in Austria and in Hungary is the " League system ", necessarily applicable in all cases in which League assistance is asked. This is an unwarranted conclusion from two instances. The particular system then applied was chosen because it was considered appropriate to the particular conditions of these two problems. In fact, however, the League has associated its credit with a loan for economic development of a constructive character for Danzig on conditions which secure only the expenditure of the money upon the agreed objects with the possibility of an accounting control of the securities of the loan. It has given financial advice to Esthonia without instituting any kind of control. The Greek and Bulgarian refugee loans, again, are associated with a control of expenditure and of assigned revenues without any control of the general State finances. The conditions must necessarily vary with the character and circumstances of the particular problem. The methods hitherto adopted constitute only the guiding experience, not a binding precedent, for any new case that may present itself.

The financial reconstruction of Austria and Hungary has thus not only restored these two countries: it has formed a

valuable precedent and example for the financial reconstruction of other countries, including both those which have restored, or are restoring, their finances by a national effort and those to which an international scheme has been applied. It has also tested and proved, and in some respects corrected or supplemented, the principles laid down at the Conferences of Brussels in 1920 and Genoa in 1921. It occupies, therefore, a position of great importance both in the theory and the practice of financial restoration.

II.
STATISTICAL TABLES.

AUSTRIA.

Area: 83,904 kilometers. *Population* (1923): 6,535,363. *Currency:* 1 schilling = 0.2117 gramme of fine gold.
0.694 gold crown.
10,000 paper crowns.
0.14071 American dollar.
0 02891 pound sterling.

1. PUBLIC FINANCES.

Schillings (000,000's omitted).

	Beginning of Reconstruction Plan	First Stage	Second Stage	Third Stage	Fourth Stage	Fifth Stage		Sixth Stage
		Monthly Averages						
	December 1922	First half-year 1923	Second half-year 1923	First half-year 1924	Second half-year 1924	First half-year 1925	Second half-year 1925	First half-year 1926
(a) *Gross Receipts:*								
Customs	5.8	7.–	10.04	12.37	11.23	14.85	17.32	16.47
Tobacco	8.7	11.9	16.76	19.07	22.15	21.60	23.73	22.61
Total	14.5	18.9	26.80	31.44	33.38	36.45	41.05	39.08
(b) *Prelim. Monthly Budgets:*								
Estimated Expenditure[1]	80.7	67.4	63.02	64.04	75.9	77.29 (6.35)	67.30 (6.18)	80.93 (11.59)
Estimated Receipts[1]	25.8	34.1	44.03	59.89	67.4	69.30 (0.45)	66.93 (0.55)	71.38 (0.61)
Deficit	—54.9	—33.3	—18.99	— 4.15	— 8.5	-7.99	-0.37	-9.55
Surplus	—	—	—	—	—	—	—	—
Total investments						(6.80)	(6.73)	(12.20)
Surplus or deficit *excluding* investments						(—1.19)	(+6.36)	(+2.65)
(c) *Closed Accounts.*[2]								
Expenditure[1]	—	64.91	64.–	77.37	80.14	76.07 (6.15)	66.3 (5.7)	80.13 (11.78)
Receipts[1]	—	43.53	56.–	75.62	69.70	72.51 (0.17)	69.3 (0.6)	77 46 (0.34)
Deficit	—	—21.38	— 7.–	— 1.75	—10.44	-3.56	—	-2.67
Surplus	—	—	—	—	—	—	+3.–	
Total investments						(6.32)	(6.3)	(12.12)
Surplus or deficit *excluding* investments						(+2.76)	(+9.3)	(+9.45)

1 The figures in parentheses indicate investments expenditure reckoned either under the heading of expenditure, which is thereby increased, or under the heading of receipts, in which case the net amount to be collected is reduced to the figures indicated.
2 Excluding sums temporarily advanced and refunded later (current account transactions).

2. Reduction in the Number of Officials.

	Total personnel discharged from October 1st, 1922, to end of June 1926.	Strength of Staff at end of June 1926.
Central Administration and State Undertakings	85,280	161,193
Southern Railway (Südbahn) [1] .	11,102	20,025

3. Trade Figures.

Schillings (000,000's omitted).

Trade and Industry	Monthly Averages						
	1920	1921	1922	1923	1924	1925	1926 [2]
Trade balance:							
Value of Imports	204.–	203.9	210.7	230.4	287.3	234.9	219.5
Value of Exports	111.9	108.4	132.3	134.6	164.2	157.6	132.8
Trade deficit (exclusive of precious metals) .	—92.1	—95.5	—78.4	—95.8	—123.1	—73.3	—86.7

4. Number of Unemployed in Receipt of Relief.

Beginning of:	1922	1923	1924	1925	1926
January . . .	16,713	117,144	98,050	154,491	207,834
February . .	33,554	161,227	119,766	187,099	231,361
March	42,933	167,417	125,783	188,917	228,763
April	42,231	152,830	106,908	175,580	202,394
May	44,281	132,226	82,524	148,434	173,115
June	38,567	107,965	68,969	130,778	154,821
July	33,355	92,789	63,556	118,366	150,981
August . . .	30,967	87,155	66,457	117,183	152,485
September . .	31,247	83,891	74,191	116,365	151,053
October . . .	38,000	78,787	77,550	119,004	148,111
November . .	58,008	75,810	89,016	130,902	
December . .	82,923	79,289	113,483	159,248	

[1] The Südbahn staff was not under the authority of the State Administration when the work of reconstruction began.
[2] Figures for first half-year.

5. Wholesale Prices (Gold Index) [1].

	1922	1923	1924	1925	1926
January . . .	85	120	130	147	122
February . .	92	120	133	146	120
March	84	128	133	143	119
April	99	131	135	139	119
May	96	132	135	138	118
June	81	128	127	141	124
July	93	125	133	137	126
August . . .	102	115	140	131	126
September . .	118	124	135	127	123
October . . .	118	122	139	127	125
November . .	112	124	144	125	
December . .	113	126	144	125	

1 First half-year 1914 = 100. This index indicates the purchasing power of a given weight of gold compared with 1914.

6. Stock Exchange Index [1].

	1922	1923	1924	1925	1926
January . . .	56	893	2,680	1,225	959
February . .	49	751	2,474	1,207	1,025
March	50	882	2,367	1,124	988
April	57	1,176	1,724	1,085	1,025
May	78	1,284	1,539	1,059	977
June	131	1,479	1,376	1,019	971
July	153	2,214	1,141	1,125	1,073
August . . .	482	2,292	1,273	1,095	1,024
September . .	502	2,540	1,134	1,109	1,203
October . . .	767	2,584	975	1,112	1,144
November . .	797	2,336	1,053	1,050	
December . .	719	2,586	1,194	954	

1 First half-year 1914 = 1 gold crown = 14,400 paper crowns. The figures in the above table are paper crowns.

7. VALUE OF DEPOSITS
in the Savings Banks, nine Vienna Banks and (since 1924) three other Credit Institutions.

Schillings (000,000's omitted).

1922		1923		1924		1925		1926	
End of Sept.	End of Dec.	End of June	End of Dec.	End of June	End of Dec.	End of June	End of Dec.	End of June	End of Aug.
3	11	34	60	124	255	427	565	720	764

8. AUSTRIAN NATIONAL BANK.

Schillings (000's omitted).

	1923			1924	
	Jan. 7	June 30	Dec. 31	June 30	Dec. 31
1. Note circulation, plus sight liabilities	447,089	579,486	777,519	851,636	894,122
2. Gold and foreign currency reserve	119,519	260,571	391,531	328,610	488,144
3. Percentage of 2 to 1.	26.73	44.96	50.36	38.59	54.60
4. Bills discounted .	73,161	73,014	132,337	308,090	188,021
5. Debt from the State owing to National Bank	255,795	254,721	253,449	223,780	217,819

	1925		1926	
	June 30	Dec. 31	June 30	Sept. 30
1. Note circulation plus sight liabilities	861,268	945,034	898,260	934,377
2. Gold and foreign currency reserve	438,593	513,868	532,938	527,589
3. Percentage of 2 to 1 . . .	50.92	54.38	59.33	56.46
4. Bills discounted	95,099	180,250	80,660	87,173
5. Debt from the State owing to National Bank . . .	203,665	187,943	182,682	178,421

[*Translation.*]

III.

SPECIAL MEMORANDA ON THE WORK OF RECONSTRUCTION

A.

THE AUSTRIAN NATIONAL BANK DURING THE PERIOD OF RECONSTRUCTION[1].

One of the most important features of the League of Nations scheme for the restoration of Austria, as set forth in the Protocols of October 4th, 1922, was the founding of the *Austrian National Bank.* The principle adopted — and its practical value became clear when the scheme was put into application — was that the stabilisation of the Austrian currency and the stoppage on inflation were essential preliminaries to any reorganisation of the budget or of Austrian economic life. The task which the Austrian National Bank was set was, however, far from easy. When the Bank opened its doors on January 2nd, 1923, its total holdings of foreign exchange consisted of the comparatively small reserves taken over from the central foreign exchange institution (Devisenzentrale) and from the Austro-Hungarian Bank, and its share capital amounted to 30,000,000 gold crowns, in gold and foreign currencies. In these circumstances, a cautious policy was essential, particularly since, according to its Statutes, the Bank had to see that the gold value of the Austrian crown did not in any case depreciate. *The Bank succeeded in stabilising the Austrian crown,* first on the basis of the Swiss franc, and afterwards, when the latter currency itself began to waver, *on the basis of the American dollar,* at a fixed rate of, in round figures, 71,000 Austrian crowns to a dollar. From then until the moment when an unrestricted dollar exchange was established at Vienna in 1926 (see below), the crown was for

[1] This Memorandum was kindly prepared by the Austrian National Bank.

a time the only European currency maintained at an absolutely fixed rate to the dollar. In its second task, namely, the accumulation of *as large a stock of foreign exchange as possible,* the Bank succeeded so well that the statutory minimum cover prescribed for the first five years — 20 per cent in gold and foreign exchanges stable with gold — was soon far exceeded, and this cover was maintained at a very high level. The table below shows the total metal reserve, note issue and immediate liabilities and the percentage of cover for both the latter afforded by the metal reserve.

	Metal Reserve	Note Issue	Current Account Liabilities	Percentage of Cover
		(Thousands of schillings)		
1923				
End of:				
March . .	142,248	445,911	32,910	31.90
June. . . .	260,570	543,262	36,223	44.95
September .	319,999	622,510	37,367	48.49
December .	391,530	712,575	64,942	50.35
1924.				
End of:				
March . .	406,053	714,490	75,281	51.41
June. . . .	328,610	777,495	74,139	38.59
September .	383,386	799,850	89,053	43.13
December .	488,143	838,776	55,345	54.60
1925.				
End of:				
March . .	331,445	789,779	29,550	40.45
June. . . .	438,593	828,017	33,251	50.92
September .	518,189	840,698	29,537	59.55
December .	513,868	890,001	55,033	54.37
1926.				
End of:				
March . .	506,466	816,068	26,040	60.14
June. . . .	532,937	836,367	61,892	59.32

It should be observed here that, according to Article 85 of the Statutes, the amount to be set aside as metal reserve must be calculated on the basis of the note issue plus immediate liabilities and after deduction of the State Debt. If we allow for this and take into account the situation of the State Debt, the percentage of cover becomes much greater still. There should also be added

considerable reserves in the form of foreign exchange which may be regarded as cover but which naturally could not be included in the official metal reserve. As regards the State Debt referred to above, a very satisfactory reduction has been effected in the *Federal Loan Debt* by repayments from the Federation to the Bank. The figures are as follows:

	Federal Loan Debt
1923	
End of March	255,015
,, June	254,721
,, September	253,766
,, December	253,449
1924	
End of March	229,542
,, June	223,779
,, September	221,052
,, December	217,818
1925	
End of March	210,795
,, June	203,665
,, September	196,641
,, December	187,943
1926	
End of March	183,469
,, June	182,682

During the first year of its existence, the Austrian National Bank was able to devote itself almost exclusively to the stabilisation of the currency and the accumulation of an adequate cash reserve, but the next year the position was affected by the difficulties which arose through *the banking crisis of* 1924. The Bank was faced with the task of *maintaining the absolute stability of the currency* while at the same time as far as possible mitigating the *effects of the banking crisis in Austria* and *keeping up* the *productive capacity* of the country. By means of comprehensive credit operations, the Bank enabled a satisfactory settlement to be reached in a number of financial failures, which at first threatened to be disastrous, and also did its utmost to provide credit for many industries whose financial stability was menaced through the difficulties in which banking institutions found themselves.

In a comparatively short time, the Bank succeeded in lessening the banking and credit crisis, and, although certain isolated financial difficulties to which it gave rise subsisted until quite recently, at the beginning of 1925 it was fair to consider that any immediate danger was over. The Austrian Bank took the view — particularly at this juncture — that one of its principal duties was to attract back into Austrian industry the foreign capital which had on a large scale taken flight from the country after the great rise in securities in 1923 and the difficulties which at that time were beginning to make themselves felt in the banking situation.

With this object in view, it took a number of steps which, in conjunction with the complete stabilisation of the Austrian currency, were calculated to strengthen confidence abroad in the economic soundness of Austria and in inducing foreign investors to place their capital there. From 1923 onwards, the existing foreign exchange regulations, which to a certain extent rationed foreign exchange, were gradually *withdrawn*. They have now been abolished; foreign exchange transactions are wholly unrestricted and the only form of regulation still retained is a "clearing" arrangement. This latter is, however, a purely technical procedure for the purpose of simplifying transactions in the foreign exchange market; it has been retained at the wish of the parties concerned, it affords all the advantages of the procedure of clearing and balancing at frequent intervals applied in other fields and it in no way affects the absolute freedom of business in foreign exchange and currencies. Austria has now *gone further in abolishing her foreign exchange regulations than any of the surrounding States*, and by restoring the freedom of currency transactions has without doubt regained, and indeed materially strengthened, her former — and natural — position as the centre for financial and stock exchange transactions between those States. As a temporary measure, the Austrian National Bank had also introduced *contango operations in foreign exchange.* By so doing it was in time of difficulty often able to obtain short-term foreign credits for persons in need of them, who then handed over the yield from these credits to the Bank in the form of forward exchange. By this means the borrower could be quite sure of reconverting the loan into the original currency at any time and was wholly free from risks arising out of the rate of exchange. When, however, the public came to realise during the crisis that the schilling would

remain stable under any conditions, and when, by the removal of the last of the existing restrictions on foreign exchange, a formal guarantee was given that foreign exchange could be reconverted unconditionally and at any time, the contango operations, which from the outset had been intended as, and had strictly remained, a special expedient to meet special contingencies, proved no longer necessary and were gradually dropped, since, of course, the public found it more profitable to sell foreign currencies than to deal in forward exchange with them.

The Bank also played a considerable part *in the reform of the Austrian currency* at the time of the passing of the Austrian *Schilling Law* of September 20th, 1924 (*Federal Legal Gazette* No. 461). The schilling currency, which was introduced in Austria on March 1st, 1925, and the use of which was at first not made obligatory, not only fixed a new unit of reckoning (one schilling = 10,000 crowns) but also meant the introduction of the schilling as a new currency, the value of the schilling being fixed at 0.21172086 gramme of fine gold. By that means a legal gold value for Austrian currency, so long desired, was officially established, although in point of fact it simply corresponded to the gold parity of 14,400 paper crowns = one gold crown, or the Vienna dollar rate of 70,935 for notes and 71,185 for bills, which the Austrian National Bank had fixed as early as July 4th, 1923. This step *relieved the Bank from the necessity of maintaining* a fixed and unalterable dollar rate, a practice which had, incidentally, become inconvenient since, in the meantime, a number of other currencies, particularly sterling, the Swedish crown, the Dutch florin and the German mark, had also reached gold parity, and the Bank of Issue had been unable to utilise the variations within the two gold points which naturally take place between the currencies of individual countries having gold standards. On August 7th, 1925, therefore, it decided *to free the dollar rate*; the Austrian schilling thereupon rose for a time to a premium of upwards of ½ per cent on the dollar, a position which greatly facilitated *the gradual acquisition of gold reserves.*

A number of other technical measures were found to be necessary in connection with the Schilling Law. In April 1925, the Bank began to *issue new schilling notes,* and as early as July 1st, 1925, was in a position to bring out the last issue of provisional notes for 5, 10, 25, 100 and 1,000 schillings. The Schilling Law

also provided for the *issue of coinage of the schilling currency.* Although it was not possible as yet to mint gold coins, the minting of a silver coinage was put in hand at once. At first the only coins issued were schillings and half-schillings (but not two-schilling pieces) and also small nickel coins of 10 groschen and copper coins of two and one groschen. Most of the first issue of silver schillings was hoarded, and a new issue was struck having a lower content of silver, and as the limit placed on the quantity of silver schillings originally issued proved too low for the requirements of circulation, Law No. 139 (April 27th, 1926) was passed raising the limit to 14 schillings per head of the population and reducing the limit for small coinage of base metal to 3.50 schillings per head. As a provisional measure to meet the shortage of small money, a number of ten-thousand-crown notes were also put into circulation, surcharged with the value of one schilling.

The following table, showing the variations of the Bank rate since January 1st, 1923, gives an idea of the *Bank-rate policy* pursued by the Austrian National Bank.

	For Discount of Bills, Warrants and Securities	For Loans on State Revenues and Treasury Bills	For Loans on other Paper Securities
	Per cent	Per cent	Per cent
January 1st, 1923, to June 4th, 1924	9	9½	10
June 5th, 1924, to August 12th, 1924	12	12½	13
August 13th, 1924, to November 5th, 1924 . .	15	15½	16
November 6th, 1924, to April 24th, 1925 . . .	13	13½	14
April 25th, 1925, to July 23rd, 1925	11	11½	12
July 24th, 1925, to September 2nd, 1925 . .	10	10½	11
September 3rd, 1925, to January 27th, 1926. .	9	9½	10
January 28th, 1926, to March 30th, 1926 . .	8	8½	9
Since March 31st, 1926 . .	7½	8	8½

At the outset of its activities, the Bank was unable to pursue a vigorous Bank-rate policy, chiefly because it had had to take over from the Austro-Hungarian Bank a comparatively low rate which was in part a legacy from the period of inflation, when it had been impossible to pursue any real Bank-rate policy. At the first signs of the banking and financial crisis in Austria, however, the National Bank boldly raised the Bank rate, in order, on the one hand, to check speculation and, on the other, to make the rate commensurate with the tightness of capital in the country. Then, as the crisis showed signs of passing, the Bank proceeded to reduce the high rate, which had undoubtedly proved a severe handicap to production. Unfortunately, the Bank was unable to reduce its rate as rapidly as it would have liked to do in the interest of production. A sudden reduction in the rate did not seem desirable in view of the after-effects of the crisis and of the various minor crises that still lingered, and, further, it was better, in order to obtain capital for Austria and in the interests of the foreign financial policy, that the Bank rate should be kept high in the interest of those States from which most of the foreign capital invested in Austria was derived. Nevertheless, in view of the steady economic recovery of the country, there is a likelihood of a further reduction of the rate fairly soon.

For the sake of completeness, it may be well to mention that, at the beginning of 1925, the Bank was able to move into its *new building*, which had originally been intended for the Austro-Hungarian Bank and had been acquired from the liquidators of that bank and completed. By this means all the departments and the general management were brought together under one roof and the Bank obtained the most up-to-date banking appliances and equipment.

The Bank's activities also proved very profitable so far as the *financial* situation of the Bank itself was concerned. The annual *dividends* paid out were as follows:

1923	8½%
1924	10½%
1925	10½%

Further, the Bank accumulated considerable reserves, which in the balance-sheet for 1925 stood as follows:

	Schillings
Reserve Fund	2,678,710.52
Special Reserve Fund to cover extraordinary business and exchange losses	6,500,000.—
Currency Reserve	9,731,302.54
Statutory Pensions Fund	1,443,276.60
Pensions Reserve I	6,702,065.46
Pensions Reserve II	7,779,810.—

It has already been found necessary to *amend the Statutes* of the Bank in various directions. At the extraordinary general meeting held on April 17th, 1923, when *a foreign Adviser was appointed*, a new chapter (Chapter XV), defining the position and powers of the Adviser, had to be added to the Statutes and was duly passed into law. Recently, at the extraordinary general meeting of November 4th, 1925, an amendment to this chapter had to be introduced, as originally the Adviser's period of office was intended simultaneously to end with that of the Commissioner-General of the League; this period of office was *extended for a further three years*. The first Adviser was the Vice-President of the National Swiss Bank, M. Charles Schnyder von Wartensee. He was succeeded by Dr. Anton van Gyn, formerly Netherlands Financial Minister. On the latter's departure the office of Adviser was taken over by Mr. Charles Robert Kay. At the extraordinary general meeting of November 6th, 1924, it was found necessary to adopt an amendment to the Statutes, by which (1) the *newly issued coinage was included* as cover for banking purposes, and (2) provision was made *to form special reserves* for specific objects. These measures were rendered necessary by the economic expansion which took place in Austria during the period of restoration, and which naturally could not have been wholly foreseen at the time when the National Bank was founded.

If at the close of the period of the League of Nations control over Austria we look back in retrospect over the activities of the Austrian National Bank, it can be asserted without fear of contradiction not only that this newly founded Bank of Issue has amply justified every hope placed in it, both in regard to the stabilisation of the currency and in its conduct of monetary affairs in general,

but also that it has proved fully equal to the tasks that it was set in the general economic field. It has repeatedly been found at times of crisis that the Austrian National Bank has stood firm, and the stability of the currency has remained unshaken, even when elsewhere the Austrian economic world has been beset by temporary difficulties. There can be no doubt that the National Bank has proved to be one of the firmest foundation-stones of permanent economic prosperity in Austria.

B.

DEVELOPMENT OF THE AUSTRIAN PUBLIC FINANCES, 1923-1926.[1]

The financial straits to which Austria was reduced after the revolution as a result of the collapse of the currency and the disasters which followed in its wake, reached their culminating point in the summer of 1922. The situation at that time is depicted in the following terms by the Financial Committee of the League of Nations in its Report of September 15th, 1924:

> " At that time, Austria was undoubtedly one of the countries in Europe which seemed nearest to ruin. The moment was apparently approaching when Austrian currency would have lost all value and when there would be a danger of famine and sudden anarchy.
>
> " The State had no proper budget. All that could be said was that only one-third of the total expenditure seemed covered by normal revenue. The remaining funds required by the Treasury were obtained from the printing-press of the Bank of Issue. Between January and August 1922, the currency fell from 1/1,000 of its pre-war value to 1/15,000. The

[1] This Memorandum was kindly prepared by the Austrian Federal Ministry of Finance.

monthly deficit had risen to about 40 million gold crowns. The complete financial chaos and total absence of any supervision over the administration of the various departments obviously made the task to be accomplished one of almost insuperable difficulty. The number of officials was out of all proportion to the size and importance of post-war Austria.

" Those who believed in the political stability and financial improvement of Austria dreaded the grave economic crisis which appeared to be imminent. Industry and commerce did not dare to re-adapt themselves to a sound currency system, the success of which was still uncertain, for they feared that very great difficulties would be encountered. Unemployment on a large scale was anticipated, and, indeed, a few months later 170,000 unemployed were in receipt of relief.

" The habit of saving had entirely disappeared in Austria. There was some doubt as to whether the stabilisation of the crown, which had been effected only a few weeks previously, could be maintained, and whether the Austrian people, discouraged and indifferent as it was, would be capable of making the effort required.

" Any Austrian who recalls this state of affairs, with all its dangers and anxieties, must, in September 1924, feel happy at the change which has occurred in the situation within the short space of two years. The intervention of the League of Nations and a remarkable change in public opinion have made it possible to convert Austria, which was on the verge of ruin, into a reorganised State — a State far from perfect, no doubt, but one in which order is assured and calculations may be made for the future. This result has been obtained by sacrifices far less heavy than those thought to be unavoidable in 1922. "

In October 1922, the scheme of reform was brought into application under the auspices of the League of Nations, and the financial fortunes of Austria took a definite turn in the right direction.

The main factors in the process of reform were the following:

The Geneva Protocols of October 4th, 1922;
The Reconstruction Law of November 27th, 1922;
The founding of the Austrian National Bank;

The closing down of the note press in November 1922;
The stabilisation of the currency from October 1922 onwards.

The Federal Government had already introduced the Budget estimates for 1923 into Parliament before the Geneva Protocols were actually brought into operation. When introducing this Budget, the Government was fully aware that its proposals were partly superseded by the Geneva Agreements, but it was bound by the fact that, under the Constitution, the Federal Budget has to be introduced by a specified date, and it would not have been possible in the short interval between the signature of the Geneva Protocols and the prescribed date mentioned above to recast the Budget prepared in the summer and autumn. Moreover, the Reconstruction Law, which largely determined the character of the Federal Budget, had not been passed at that time, and did not come into force until November 27th, 1922.

Accordingly, this first draft Budget was a mere formality, and we need only add that it was withdrawn, and that the figures of the second draft, which was introduced on February 17th, 1923, were very materially modified as a result of the Geneva Protocols and the Reconstruction Law.

In all its main items the second half compared favourably with the first. The Budget as a whole, including the sums demanded for investment, showed a total deficit of about 185 million gold crowns, as compared with 367 million gold crowns in the first draft.

The amendments to the items of the draft Budget were based on the Reconstruction Law and the skeleton Budget entitled the *Reform Scheme*.

The Reconstruction Law contained a number of detailed provisions which directly affected the draft Budget, but in many respects this Law was framed on broad lines and was simply intended to give general guidance. The League of Nations delegation, sent to Vienna in November 1922, was convinced that, if order was to be restored in Austria finances, it was necessary not only to increase revenue, but also, and above all, to reduce expenditure, and, further, that for this purpose definite limits would have to be set to expenditure. On this basis it drew up, jointly with the Government, a budget programme, divided into half-yearly periods, for the years 1923 and 1924. On certain

fundamental points this programme constitutes a departure from the normal construction of the Austrian Federal Budget. It was obviously desirable to have a programme the figures of which could be seen at a glance, while at the same time it was desired to show quite clearly which categories of expenditure were to be definitely limited.

The scheme of reform consists of four half-yearly stages, the first two of which (beginning January 1st and July 1st, 1923) applied to the year 1923, and the second two (January 1st and July 1st, 1924) applied to the year 1924.

Scheme of Reform	Administration	Monopolies (net return)	Undertakings (net subsidy)	Total deficit (—) or surplus (+)
	Millions of gold crowns			
First Stage (beginning January 1st, 1923).	127.5	37.5	51.2	—141.2
Second Stage (July 1st, 1923)	84.4	43.9	38.7	— 79.2
Total for 1923 .	211.9	81.4	89.9	—220.4
Third Stage (January 1st, 1924)	48.9	50.4	22.8	— 21.3
Fourth Stage (July 1st, 1924)	36.5	56.8	9.2	+ 11.1
Total for 1924 .	85.4	107.2	32.0	— 10.2

The scheme of reform was never embodied in a Government bill and so did not come before Parliament. As far as the Constitution was concerned, it was simply a private agreement between the Government and the League of Nations delegation. Nevertheless, it was of vital importance; it formed an essential supplement to the Reconstruction Law, and profoundly influenced the form of the Budget proposals. In view of the circumstances in

which this scheme of reform came into being, however, it will be readily understood that many individual items subsequently required amendment (this point is dealt with below).

The main feature of the scheme of reform was that the deficits should be got rid of in the first half-year of 1924 through gradual reductions in specified groups of expenditure, through the removal of deficits on Federal undertakings, and further by the increase of administrative sources from revenue, such as public taxation.

Even in 1923 the principal items of the draft Budget already referred to showed that greater confidence was being placed in the success of the Government's financial policy than had been the case at the time when the reform programme was prepared. This confidence was more than justified by events in 1923. It is true that, according to the closed accounts for that year, expenditure exceeded the estimates in certain directions, but the excess of actual over estimated receipts was still greater. The total deficit amounted to 110 million gold crowns, which was much less than had been provided for in the Budget. In 1923, productive expenditure in respect of monopolies and State undertakings amounted, in round figures, to 53 million gold crowns, so that the deficit on current administration was only 57 million gold crowns. The total deficit allowed for 1923 in the reform programme amounted to about 220 million gold crowns, but it is impossible to determine what proportion of this amount was intended for investment expenditure, because the scheme of reform as originally planned did not differentiate between productive and other expenditure.

It is hardly possible to compare the financial administration of 1923 with that of the previous year. In 1922, inflation was at its height, and the value of the crown differs widely in the Budget accounts for the various periods of that year. Even the conversion of the monthly accounts into gold crowns affords no practicable basis of comparison, because, owing to the rapid fall in the rate of the crown, the difference between the internal and external purchasing power of the crown was at times very wide indeed, and any comparison with the financial position in 1923, even after conversion to a gold crown basis, would inevitably lead to quite erroneous conclusions.

It is therefore only for the period from 1923 onwards — in which year the stabilisation of the crown was complete — that

any reliable account of the development of the financial situation can be given. As the cash closed accounts for 1923 already showed, these developments were taking a direction rather different from that contemplated in the scheme of reform. In the latter, it was assumed that the possibilities of increasing revenue were strictly limited, and chief importance had been attached to reduction of expenditure; but even in 1923 revenue from administrative sources, especially public taxation, increased very greatly. This divergence is due not to any miscalculation of the facts at the time when the scheme of reform was introduced, but rather to the circumstance that the actual stabilisation rate of the crown had not been fixed at that time. The main reason for this favourable development was that the yield from public taxation proved much greater than had been anticipated either in the scheme of reform or in the draft Budget itself, and this despite the fact that the Government did not make full use of the power to increase certain taxes granted to it by the Reconstruction Law.

It is true that the net yield from monopolies estimated in the Budget was rather less than that provided in the reform programme, but the yield shown in the closed accounts was very considerably in excess of the Budget estimate.

The actual receipt from the Federal Railways and other State undertakings fell short of the estimates laid down in the scheme of reform, and in some cases, indeed, they even fell short of the Budget estimates.

It may be observed here that the Budget for 1923 distinguished for the first time between the State administration on the one hand and monopolies and State undertakings on the other; this step had been decided upon prior to the introduction of the Geneva scheme and was expressly provided for in the Reconstruction Law.

The new practice of distinguishing, in the accounts of State economic undertakings, between expenditure on those undertakings and productive expenditure in general made it possible for the first time to obtain a clear idea of the economic policy pursued, and paved the way for the measures necessary to ensure the success of the State undertakings.

This was a great step forward in the reorganisation of the State Budget. In considering what is known as the "commercialisation"

(" Kommerzialisierung ") of the Federal undertakings, it should of course be remembered that, with a few financially unimportant exceptions, these undertakings are not intended purely and simply for purposes of profit. They are institutions with important public duties to fulfil, and the principles on which private commercial enterprises are conducted only apply to them within certain very definite limits.

The Federal Railways alone among these undertakings had their legal status radically changed in 1923; under the Federal Railways Law of July 19th, 1923 (*Federal Legal Gazette*, No. 409) they became a legally independent economic entity as from October 1st, 1923, and since then have been left wholly outside the Federal Budget.

The other State undertakings are only shown separately in the Federal Budget for 1923. Not until 1925 was a law passed reorganising the Federal Forestry Administration (Law of July 28th, 1925, *Federal Legal Gazette*, No. 282) and a decree was issued by the Government reorganising the salt monopoly as from January 1st, 1926. Neither of these industries, however, has entirely passed out of the Federal Budget; both undertakings still remain in the hands of the Federation, whereas the Federal Railways, though still Federal property, have been placed under the trusteeship of an *ad hoc* legal body.

The preparation of the Budget for 1924 was fraught with serious difficulties and required particular care, because at the time when the estimates were being drawn up the only data available were the provisional cash closed accounts for the first months of 1923. It was at first found impossible to keep within the limits laid down in the reform programme for that year, and the Budget balance showed a much greater deficit than was allowed for in the programme.

In the course of the Parliamentary discussion of the Budget, the estimates were increased by the fifth supplement for wages granted to Federal officials, which had been issued in the meantime. On the other hand, revenue was increased by certain changes in the allocation of taxation which operated in favour of the Federation. On the balance the total deficit was reduced from 58 to 46 million good crowns, but was still considerably beyond the limit laid down in the reform programme. The situation was not necessarily disquieting, because the deficit was still

amply covered by the balance of the credit earmarked by the League of Nations for that purpose.

Nevertheless, the Federal Government had been instructed by the Budget Law for 1924 " to shape its policy so that the actual deficit for 1924 should not exceed ten million gold crowns (146.7 milliard crowns) and the Budget equilibrium should be restored by 1925".

The deficit in question, however, still corresponded to the deficit for the year allowed under the original scheme of reform.

A comparison of the closed accounts for 1924 with the Budget of that year (it should be noted that the closed accounts for 1924 were ready as early as August 1925) shows that, despite the extra expenditure arising out of the Salaries Law — which came into force on May 1st, 1924, and indeed had not been introduced and passed until after the Budget had become law — the balance shown in the accounts was much more favourable than the figure which had been agreed upon in the Budget. The Government had clearly done all it had been asked to do, and indeed the eventual deficit (about nine million gold crowns) was still short of the amount (ten million gold crowns) laid down in the Budget. Current transactions closed with a surplus of 63 million gold crowns, which covered most of the expenditure on investments (72 million gold crowns).

Moreover, contrary to the previous practice, bills held by the Treasury in respect of deferred Customs duties, taxes on commodities and the proceeds from the sales of salt were no longer included in the receipts of the closed accounts for 1924 on and after October 1st, 1924. These sums were the following:

	Millions of gold crowns
Customs bills	7.3
Bills for taxes on commodities	7.–
Bills for sales of salt	6.2
Total	20.5

If these bills had been included among the receipts, the credit balance on current transactions would have been increased by 20.5 million gold crowns, and the accounts as a whole would have

shown a total credit balance of 11.5 million instead of a deficit of 9 million gold crowns.

Once again it was the very large revenue from administrative sources (chiefly public taxation) which enabled the figures laid down in the Budget estimates to be reached.

It became clear from the financial situation, even in the first half of 1924, that the reform programme laid down in November 1922 would have to be revised. The potential increase of revenue had been greatly under-estimated; it justified an extension of the maximum expenditure, and accordingly, in the early summer of 1924, the Government approached the Financial Committee of the League of Nations with this object in view.

The negotiations led to an agreement, concluded at Geneva in September 1924 as the result of an enquiry conducted in Vienna in August 1924 by an expert delegation sent by the Financial Committee of the League of Nations; by this agreement the provisions of the reform programme relating to Budget questions were very considerably modified.

According to the agreements of 1922, the maximum gross expenditure from 1924 onwards, as laid down in the reform programme, was 350 million gold crowns, inclusive of expenditure on investments. The period covered by restrictions on the Budget was extended to 1926, and the maximum expenditure was increased to 495 million gold crowns for current transactions, and in addition 50 million gold crowns were allowed for investments. Productive investments not covered by credit balances on current transactions were to be met from the League of Nations credits. In this way new bases were laid down corresponding to actual conditions, and the distinction between current transactions and productive expenditure was now established.

The Agreement of September 1924 was submitted on the 24th of that month to the Chief Parliamentary Committee by the Government immediately on its return from Geneva and was accepted by a majority of the Committee. On October 1st, 1924, the Government submitted to Parliament a report on the Geneva negotiations and resolutions, and the report was definitely approved.

The Federal Budget estimates for 1925 were kept strictly within the limits already referred to; in October 1924 they were submitted to Parliament, which approved them with a few trifling amendments on March 24th, 1925. This early adoption of the Budget

estimates by Parliament also shows progress. In 1923 the delay due to Parliamentary discussions had necessitated provisional votes on account for fully six months, but the Budget for 1924 was passed before the first five months of the year had elapsed, and the Budget for 1925 was adopted as early as the third month.

The Budget for 1925 showed a marked advance in almost every direction on those of 1923 and 1924. Although the Salaries Law had now come into full operation, administrative expenditure did not appreciably increase. The measures of economy which, as arranged, had been or were being carried out from 1923 onwards brought about very considerable reductions in current administrative expenditure.

An important factor in these reductions was the rapid withdrawal, provided for in the Reconstruction Law, of the supplements granted by the Federation to provinces and communes for expenditure on personnel. At the same time, the measures of economy effected led to extensive discharges of staff and a consequent increase in the cost of pensions.

As regards the Federal Railways, the large deficit of which in 1923 constituted a heavy burden on the State Budget, the only assistance provided by the Government consisted in the handing over of the traffic taxes, the payment of about four-sevenths of the expenditure in respect of former pensions for ex-employees of the Federal Railways and the Südbahn, and the discharging of the liabilities due under the Südbahn Agreement. On the other hand, the Federal Railways have duly paid the interest and amortisation charges on the sums granted them from Federal resources from October 1st, 1923, onwards for productive investment, and are also responsible for the service of the former railway debts (this latter amount, however, was not very large).

Of the other Federal undertakings, the most important is the Postal, Telegraph and Telephone Administration. The pensions subsidy paid to this Administration was considerably less than in 1924, and the interest and amortisation charges on Federal funds placed at the disposal of the undertaking for productive investment are fully met by the undertaking itself. No further subsidy is being paid to it.

The position of the Federal forests also compares favourably with 1924.

Only a few undertakings still showed a deficit, and of these

only one, the State theatres, constituted a serious drain on the Federal Budget; the theatres, however, are an ancient heritage of the national culture which had to be preserved unimpaired.

The State monopolies also showed increased revenues in 1925 as compared with 1924. The estimated yield from public taxation was again considerably raised, and it was thus possible, in the Budget estimates themselves, to cover a large part of the investments from the surplus on current transactions.

The State finances were also affected by the amendment to the Constitution which came into force on October 1st, 1925; by this amendment certain administrative duties were transferred to the provinces, whose share in common public taxation in consequence was increased by a reduction in the preliminary appropriations previously accruing to the Federation. This change lightened administrative expenditure although it also reduced the yield from public taxes.

Generally speaking, the transactions of the year 1925 were kept within the limits laid down in the Budget. Only in a few categories of expenditure did supplementary claims arise, which were due to causes beyond the Government's control and could not be covered by postponing other expenditure. They consist principally of extra expenses entailed by the rise in the sterling rate and the growth of unemployment. In December 1925, the League took note of this unavoidable excess of expenditure.

As regards investments, the Council of the League agreed at its session in June 1925 to the release of 88 million gold crowns for the further electrification of the Federal railways (the sections Innsbruck–Brenner, Innsbruck–Kufstein and Worgl–Salzburg), and accordingly a supplementary Budget Law was passed increasing the credit for investments in 1925 by 11 million gold crowns.

According to the closed accounts for 1925, current transactions show an increase of expenditure over Budget estimates of about 20 million gold crowns and an increase of revenue amounting to about 122 million gold crowns.

Thus, on the whole, the prescribed limits of expenditure were observed in 1925, allowance being made for the excess expenditure which the League had recognised; receipts, on the other hand, showed a considerable increase, so that, despite the excess expenditure referred to above, the net result for this year also was much more favourable than had been estimated in the Budget.

The following table, in which the closed accounts for 1923–25 are compared, shows the financial position of the Federation during the years when the programme of reform was in operation:

	Closed Accounts 1923	1924	1925
	(Millions of gold crowns)		
1. *Current Transactions:*			
Expenditure	541.4	562.5	514.9
Receipts	484.3	625.4	630.9
Deficit . . .	57.1	—	—
Surplus . .	—	62.9	116.0
2. *Investment Expenditure* . . .	52.8	72.0	62.9
3. Budget Deficit	109.9	9.1	—
Budget Surplus	—	—	53.1

NOTE. — It should be noted that the above figures only show the sums prescribed for receipts and expenditure where the actual receipts and expenditure differ from the amounts in the ordered accounts. Moreover, the table only shows budgetary transactions, in addition to which the Federation still had to pay certain advances. Accordingly, only part of the Budget surplus for 1925 (53.1 million gold crowns) actually constituted an increase in the Federal Treasury receipts.

The Budget for 1926 was introduced into Parliament at the beginning of September, long before the time appointed in the Constitution. The Budget discussion by the Financial Committee was concluded on December 7th, and the plenary Parliamentary discussion on December 19th, 1925, so that the 1926 Budget actually passed into law before the beginning of the financial year.

The main items of the Budget for 1926 show an increase of the surplus on current transactions, as compared with the previous year, from 14 to 25 million gold crowns. Investment expenditure is considerably larger, however, owing to the sum required for the second stage of the electrification scheme (about 28 million gold crowns) which is due to be carried out in 1926. The total deficit thus amounts to 59 million gold crowns, as compared with 40 million in 1925, but as this deficit consists entirely of productive investments, it will be covered from the credit balance of the League of Nations loan.

ADMINISTRATION 1923-1926 (according to the

(Closed accounts of 1923, 1924 and 1925 and provisional

Chapters in the League of Nations Reform Scheme	Closed Accounts 1923		
	Current Account Operations	Investments	Total
FEDERAL EXPENDITURE:			
1. Service of the Debt:			
(a) League of Nations Loan (net)	27.33	—	27.33
(b) Other Debts (net)	23.34	—	23.34
2. (a) Pensions and Indemnities (net)	51.44	—	51.44
(b) Pensions of retired Employees of the Federal Railways and the Südbahn (net)	3.28	—	3.28
3. Army (gross)	43.26	—	43.26
4. Public Welfare (net)	43.56	—	43.56
5. Other Administrative Services (gross)	154.03	—	154.03
6. Payments to Independent Administrations	41.00	—	41.00
7. Railways:			
(a) Federal Railways	95.92	[1] 42.55	138.47
(b) Südbahn Agreement	28.85	—	28.85
(c) Other Railways	6.58	—	6.58
8. Other Undertakings showing a deficit (net subsidies)	22.84	9.21	32.05
Total expenditure	541.42	51.76	593.18
FEDERAL RECEIPTS.			
1. Customs	69.35	—	69.35
2. Import and Export Duties	7.00	—	7.00
3. Taxes on Commodities	46.76	—	46.76
4. Direct Taxes	115.43	—	115.43
5. Taxes on Railway Traffic	62.40	—	62.40
6. Taxes (other than Taxes on Railway Traffic)	132.26	—	132.26
Total (1-6)	433.21	—	433.21
Less Taxes refunded to the Provinces and Communes	−72.65	—	−72.65
Net balance (1-6)	360.56	—	360.56
7. Receipts from other Administrative Departments	59.01	—	59.01
8. Tobacco Monopoly (net)	58.19	−0.90	57.29
9. Salt Monopoly (net)	4.78	−0.13	4.65
10. Other Monopolies (net)	1.54	—	1.54
11. Productive Undertakings (net)	0.26	−0.04	0.22
Total receipts	484.34	−1.07	483.27
Total expenditure	541.42	+51.76	593.18
Budget deficit	57.08	52.83	109.91
Budget surplus	—	—	—

[1] This amount is made up as follows:

	1923	1924
Electrification I	21.71	31.04
Electrification II	—	—

classification adopted in the reform scheme).
result of administration of first half of 1926.)

Closed Accounts 1924			Closed Accounts 1925			Provisional Cash Account Transactions January-June 1926		
Current Account Operations	Investments	Total	Current Account Operations	Investments	Total	Current Account Operations	Investments	Total
(Millions of gold crowns)								
53.02	—	53.02	56.66	—	56.66	30.97	—	30.97
41.92	—	41.92	18.03	—	18.03	13.12	—	13.12
85.51	—	85.51	83.05	—	83.05	47.56	—	47.56
32.63	—	32.63	28.51	—	28.51	16.11	—	16.11
44.60	—	44.60	48.03	—	48.03	25.08	—	25.08
50.69	—	50.69	64.85	—	64.85	43.37	—	43.37
183.05	4.20	187.25	195.46	11.89	207.35	94.84	+ 7.82	102.66
27.39	—	27.39	4.33	—	4.33	—	—	—
1.12	[1] 42.94	44.06	—	[1] 35.81	35.81	—	[1] +32.86	32.86
17.69	2.78	20.47	7.37	—	7.37	3.82	—	3.82
9.32	2.55	11.87	4.48	1.41	5.89	1.63	+ 1.08	2.71
15.55	17.45	33.00	4.08	9.85	13.93	8.28	+ 7.34	15.62
562.49	69.92	632.41	514.85	58.96	573.81	284.78	+49.10	333.88
96.38	—	96.38	136.48	—	136.48	68.91	—	68.91
6.31	—	6.31	3.05	—	3.05	0.96	—	0.96
56.29	—	56.29	58.98	—	58.98	32.03	—	32.03
196.72	—	196.72	198.23	—	198.23	117.80	—	117.80
2.85	—	2.85	3.26	—	3.26	0.63	—	0.63
237.08	—	237.08	240.03	—	240.03	113.15	—	113.15
595.63	—	595.63	640.03	—	640.03	333.48	—	333.48
− 113.18	—	−113.18	− 178.72	—	−178.72	− 91.45	—	− 91.45
482.45	—	482.45	461.31	—	461.31	242.03	—	242.03
48.42	—	48.42	43.71	—	43.71	11.40	—	11.40
90.01	1.92	88.09	106.57	− 3.04	103.53	58.74	− 1.16	57.58
1.79	0.12	1.67	8.17	− 0.15	8.02	5.23	− 0.10	5.13
2.52	—	2.52	5.07	− 0.24	4.83	3.62	− 0.10	3.52
0.24	0.03	0.21	6.05	− 0.55	5.50	3.05	− 0.04	3.01
625.43	2.07	623.36	630.88	− 3.98	626.90	324.07	− 1.40	322.67
562.49	+69.92	632.41	514.85	+58.96	573.81	284.78	+49.10	333.88
—	71.99	9.05	—	62.94	—	—	50.50	11.21
62.94	—	—	116.03	—	53.09	39.29	—	—

1925 — *First half-year* 1926
17.85 — 4.67
8.47 — 19.56 (including 2.65 million gold crowns balance of credit carried over from 1925).

The cash closed accounts for the first half of 1926 (which are already available, though the figures are only provisional) show both that the prescribed expenditure has been exceeded and that revenue has materially increased. As, however, the increase in receipts is notably greater than that in expenditure, the surplus on current transactions is much larger, according to the provisional closed accounts, than the estimate provided in the Budget. Moreover, it should be remembered that, apart from certain payments to Federal officials in the first months of the current year (relief for high cost of living, amounting to a fortnight's wages), the increase in expenditure is mainly attributable to the fact that, for various reasons, the first months of the year always make heavier demands on the Treasury than the months in the second half. This applies particularly to unemployment relief, as unemployment, which of course varies with the season, is always at its height in the first months of the year.

The cash closed accounts for Federal Budget transactions in the years 1923–25 and the first half of 1926 fully justify the claim that order has now been restored in the Austrian Budget. Moreover, this has been accomplished without an excessive increase in public taxation or an exorbitant rise in monopoly tariffs or traffic rates.

The situation was fully taken into account by the Council of the League at its June session, and the financial control of Austria was brought to an end on July 1st, 1926.

[*See table on pages 110 and 111.*]

C.

ADMINISTRATIVE REFORM DURING THE PERIOD OF RECONSTRUCTION.[1]

In 1922, the Financial Committee of the League of Nations, replying to questions by the Austrian Committee as to what measures were required and were practicable to secure the equilibrium of the Austrian Budget, indicated as the main measures required for this purpose the reform of the State industrial enterprises, the reduction of officials, and such a readjustment of the Federal taxes that the requirements of the normal Budget estimated by the Financial Committee could, after two years, be met out of taxation.

This sequence was observed in all subsequent reconstruction measures. The Geneva Protocols of September 1922 did not deal with the details of reconstruction. They left these to be fixed by a programme of reform and reconstruction which was worked out by the Austrian Government in agreement with the Commissioner-General of the League of Nations and a League delegation. This programme of reform and finance and the Austrian Reconstruction Law of November 1922, of which this programme constitutes an annex, treat the duties of reconstruction work in accordance with the answers given by the Financial Committee in this order:

Reform of Federal undertakings;
Administrative reform and measures of economy;
Revenue.

To these three sections is added a fourth concerning provincial and communal finance.

[1] This Memorandum was kindly prepared by the Austrian Federal Ministry of Finance.

I. Reform of Federal Undertakings.

The branches of State administration, with the exception of the monopolies (tobacco and salt), which are dealt with in another part of the present report, were the following:

Federal Railways
Postal, telegraph, telephone and pneumatic postal services.
Forests and domains.
Mines.
State theatres.
The Mint.
State printing press.
The *Wiener Zeitung*.
Government pharmacies.
The State factories established in connection with war industries.

In its report of 1922, the Financial Committee of the League of Nations expressed the opinion that State industrial undertakings should be either suppressed if merely useless, or run by the State upon a commercial basis in such a manner as to make them pay. In so far as appeared suitable in individual cases, enterprises should be transferred to private management by concessions. The abolition of loss from State industrial enterprises would, in the opinion of the Financial Committee, involve an annual saving of 245 million schillings (170 million gold crowns).

The report of the Financial Committee specially emphasised that the situation of the State enterprises was most clearly shown in the railways, which at that time were working at an annual loss of about 178 million schillings (124 million gold crowns).

Federal Railways.

In virtue of the Reconstruction Law and the Programme of Reform and Economy, the Federal Railways were transferred on October 1st, 1923, to an independent economic organisation

named the "Oesterreichische Bundesbahnen", to administer and manage them as a trustee.

By the amalgamation of business into sections under the general directorate, the administration of the Federal Railways was radically transformed. The whole of the supply and administration of material was transferred to a supply department under the general directorate. The whole of the book-keeping and the pay and taxation services were combined under a financial directorate, receipts under the commercial directorate and the whole of the workshops under the workshop directorate.

Administration was simplified by a new distribution of the Federal railway lines between the separate district directorates.

The economical working of the railways was promoted by the simplification of work and by the introduction of technical improvements, in particular by the electrification of large sections of the line.

Tariffs were adapted to business costs and the value of transports in proportion to actual prices and the cost of living.

Privileges in the form of reduced fares, etc., were very considerably cut down.

Other State Enterprises.

The other branches of State enterprises whose financial yield affects the Federal Budget call for the following remarks:

The Postal, Telegraph and Telephone Services were reunited and rates adapted where necessary to the costs of administration.

For the administration of the State forests, an independent economic organisation was created called the "Oesterreichische Bundesforste", which took over the service on January 1st, 1926. The three former organs of administration (the Central Board, the Directorate of Forests and Domains and the Forests Administration) were reduced to two by the dissolution of the Directorate of Forests and Domains.

The giving out of timber felling to permanent workmen introduced the system of piece-work combined with bonuses.

The administration of the State mines was taken away from the central administration and entrusted to a newly established Mining Directorate at Kirchbichl. The State mines at Gross-Fragant and Kitzbühel-Jochberg were closed down as unprofitable.

The Federal enterprises also include the State theatres. As is known, the Austrian State theatres, the Burg Theatre and the Opera rank high among Austria's national possessions. As no amount of reform or administrative economies could make it possible within any measurable time for the State theatres to support themselves out of their receipts, an annual subsidy from State funds had to be fixed. This State grant amounted for 1926 to 4.3 million schillings. It is not thought that this amount will be exceeded.

State Factories.

In the case of the State factories which were established in connection with war industries, and which until 1922 were managed directly by the State, the reform programme laid down two requirements:

(1) Cessation of management and direct administration by the State;

(2) The suspension of all financial contributions towards these State enterprises.

The first of these two duties was fully discharged by the conversion of the former State factories into independent companies, in which the State has a varying share according to circumstances. The second requirement may also be regarded as fulfilled, since no further payments are made by the State for the purposes of the business. State contributions are confined to cases in which the State has incurred special obligations in virtue of earlier contracts. The results, from the point of view of the Federal Budget, consequent upon the execution of the work of reconstruction in respect of the State enterprises, may be seen from the figures shown in Annex I of the present Memorandum.

Annex I.

A. Comparison of the Results shown by the Federal Railways between 1923 and 1925.

	Closed accounts for year	Cash Statement of		Invest-ments	Subsidy
		Loss on working	Profit on working		
		(Millions of schillings)			
Federal Railways (excluding the Südbahn) . .	1923	118.13[1]	—	61.27[3]	179.40
Federal Railways (including the Südbahn) . .	1924	1,41[2]	—	65.83[3]	67.24
Federal Railways (including the Südbahn) . .	1925	—[2]	—	51.57[3]	51.57

1 The independent economic organisation the "Oesterreichische Bundesbahnen" ("Austrian Federal Railways"), was constituted on October 1st, 1923.

Of the cash deficit of 118.13 million schillings:

(a) 90.62 million schillings is in respect of the period January 1st to September 30th, 1926;
(b) 27.51 million schillings is in respect of the period from October 1st to December 31st, 1926.

2 After the transfer of the railway traffic taxes to the Federal Railways.

	1923	1924	1925
3 Including electrification scheme I	31.27	44.70	25.70
Including electrification scheme II	—	—	12.1

Note. — The figures in the statement do not give a completely accurate comparison, because in 1923 railway traffic taxes were credited to the State, whereas in 1924 and 1925 they were paid to the Federal Railways.

In addition to the above subsidies, the Federal Railways received further grants for the following special purposes between 1923 and 1925 :

	Closed accounts		
	1923	1924	1925
	(Millions of schillings)		
Federal Railways: Stock	20.00[1]	—	—
Federal Railways: Balance of Czecho-slovak debt	—	5.10	—
Federal Railways: Refund from 1923 .	—	— 4.89	(Revenue)
Südbahn: Charges arising out of the Agreement.	41.54	17.89	10.61
Südbahn: Redemption of debt owing in 1923	—	7.58	—
Federal Railways and *Südbahn:* Net expenditure of the Confederation on old-age pensions	—	34.54	41.05

1 Stock provided for the Austrian Federal Railways in execution of the Federal Railways Law of July 19th, 1923, *Federal Law Gazette*, No. 407, and of the Federal Railways Transfer Decree of September 28th, 1923, *Federal Law Gazette*, No. 530.

B. Comparison of Results shown by other State Enterprises between 1923 and 1925

	1	2	3	4
	Total of		Net	
	Deficits	Surpluses	Deficit	Surplus
	From the separate State enterprises		On all State enterprises (columns 1 and 2)	
	(Millions of schillings)			
Closed Accounts 1923 . .	32.89	0.37	32.52	—
Closed Accounts 1925 . .	6.53	9.37	—	2.84
Improvement	26.36	9.00	35.36	—

The total improvement of 35.36 million schillings is made up as follows:

		1923	1925	Improvement (+) Increased Deficit (—)	
		(Millions of schillings)			
Postal Services:	Deficit	—	—		—
	Surplus	23.67	0.66		+ 24.33
Forests:	Deficit	—	—		—
	Surp us	4.40	0.73		+ 5.13
Mint:	Surplus	0.08	7.57		+ 7.49
Theatres:	Defic t	1.70	4.41		— 2.71
Other enterprise	Deficit	3.12	2.12	+ 1.00	—
	Surplus	—	—	+ 0.12	+ 1.12
Total:	Deficit	32.89	6.53	+ 26.36	+ 35.36
	Surplus	0.37	9.37	+ 9.00	—

II. Reforms and Measures of Economy within the Administration Proper.

The most important and far-reaching result of the Austrian Government's reform work within the Federal administration during the period of reconstruction is to be seen in the laws for the simplification of the administration.

These include the laws on administrative procedure and the law for simplifying the administration.

By the former, administrative procedure, which had hitherto been regulated almost entirely in association with the substantive law governing the different branches of administration, was separated from substantive administrative law, and, in the case of as many branches as possible, was incorporated in laws of its own — the Law on General Administrative Procedure, the Administrative Penal Law and the Administrative Law of Execution. These laws placed administrative law on the same footing as that long enjoyed in Austria by judicial legislation, in respect of which there are uniform regulations for civil procedure, criminal procedure and executive procedure applying in the same way to all branches of civil and criminal law.

Above all, the separation of law governing administrative procedure from the substantive administrative law went far towards unifying the law governing administrative procedure. Apart from this greater unity, which itself means simplification, the Law on Administrative Procedure sought the utmost possible simplification in the settlement of all details.

The Law for Relieving the Burdens of Administration simplifies the work of administration in branches of administrative law not concerned with procedure, in particular, therefore, in branches of material administrative law.

The second important administrative reform to be mentioned is the Salaries Law of July 1924.

This law restored order to the unsatisfactory and confused state into which matters affecting officials had fallen during the period after the war, and established a new basis for the remuneration of State employees. The placing of officials in categories according to nature of employment and degree of training, the establishment

of fixed rates of pay and the restoration of the gulf between the salaries of qualified and non-qualified State employees, based upon a clearer recognition of the principle of efficiency, created the necessary conditions for a final solution of the problem of officials in Austria. The law did not satisfy Austrian officials, because it was only able to fulfil their material hopes to a limited extent. From the standpoint of administrative reform, there is much to commend the law, since it put an end to a large amount of tedious work and waste of time in connection with the payment of officials.

In discussing the reforms and measures of economy, mention must further be made of the steps taken by the Federal Government to ensure the observance of certain limits of expenditure, helping forward thereby the possibility of executing the reforms and economies.

The first place must be given to the introduction of monthly estimates ("Monatspréalables") and monthly closed accounts of actual expenditure and receipts. The monthly estimates and closed accounts were introduced on January 1st, 1923, were kept up during the whole period of reconstruction and were made a permanent institution in virtue of a Decree of the Federal Government dated August 20th, 1925. They have proved the mainstay o financial reconstruction.

Towards the end of the period of reconstruction, the system of limited accounts was introduced with effect as from September 1st, 1925, for the purpose of establishing financial control. Its purpose is to prevent the monthly credits from being exceeded, and under this system the Postal Savings Bank at any given time only effects payments out of the postal cheque accounts of the departments up to the maximum notified to it monthly by the Federal Ministry of Finance in regard to each department and each account on the basis of the monthly estimates. The departments are required in principle to make their payments through the Postal Savings Bank to the debit of their accounts.

The different reforms and measures of economy laid down in the reconstruction programme are grouped as follows:

(*a*) Reduction of work, number of posts and staff;

(*b*) General measures of economy;

(*c*) Summary of the proposed reforms as regards individual branches, numbering altogether 104 points.

In 1924, the reconstruction programme was revised in virtue of enquiries by a delegation of the Financial Committee which paid a visit to Vienna. It was found that the Budget limits proposed by the League of Nations delegation in 1922 were too low; also that the restoration of Budget equilibrium could not be effected through the reduction of expenditure to the extent that had been intended and hoped at the time, that the prospects of increasing the receipts had been considerably under-estimated in 1922, and that an equivalent increase of revenue must be sought for. Moreover, the burden of taxation had become heavier through the economic crisis which had supervened. The Agreements of September 1924 between the Austrian Government and the Financial Committee and Council of the League of Nations, known as the September Agreements, contain new directions for the work of reconstruction. The 22 points in the annexes of the September Agreements consist partly of repetitions of the original reconstruction programme and partly of extensions and alterations of that programme.

To recount the execution of the various points in the programme of reconstruction between 1922 and 1924 would take much too long.

The present summarised report therefore confines itself to mentioning that the number of Federal Ministries was reduced during 1923 from ten to seven. In May 1925, these seven Ministries contained altogether 183 departments and 32 sections. Under a decree by the Ministerial Council of May 1925, the number of divisions was reduced to 108 and the number of sections to 20.

At the same time the staff of the Central Offices was reduced in three stages by 30 per cent.

The Department of Financial Administration may be taken as an example of the measures of reform carried out in the different branches of administration as part of the Reconstruction Programme.

In order to obtain, as far as possible, the fusion of all the financial authorities in a province into one single authority, all the District Finance Offices and Finance Inspectorates in the different provinces were dissolved. Their work (with the exception of the taxes branch of the District Finance Office at Innsbrûck, for which a Taxes Assessment Office at Innsbrûck has been established) was transferred to the provincial finance offices in

the respective Federal States. Further, with the exception of the one at Vienna, all Chief Customs Offices were closed down. In Vorarlberg, the Federal Finance Office for Vorarlberg was created, and took over the business of the District Finance Office and Chief Customs Office at Feldkirch.

The offices of the Financial State Attorneys at Graz, Innsbrück, Linz and Salzburg were closed, and the work of these departments transferred to the Vienna Office, whose competence thus extends to all the Federal States.

Four taxation administration offices in Vienna and 17 district taxation departments were dissolved.

The number of taxation offices, which on January 1st, 1923, amounted to 238, was reduced by 116, leaving 122.

Financial and legal deposit offices in the outer districts of Vienna, which originally numbered ten, had been reduced by the end of 1925 and entirely dissolved during 1926.

The combined measures of administrative reform and the reduction in the number of posts were largely directed towards reducing the number of employees to the limit set by the Reconstruction Programme and the Reconstruction Law.

The figures of *reduction* up to the end of December 1925 are as follows:

Central Administration	22,946
Federal Undertakings	21,062
Total	44,008
Federal Railways	39,783
Total	83,791
Sudbahn	11,184
Total	94,975
This number increased between January 1st and the middle of July 1926 by	1,638
Which gives a total of	96,613

On October 1st, 1922, staffs numbered as follows:

Central Administration	74,886
Undertakings	67,355
Total	142,241
Federal Railways	104,235
Total	246,476
Sudbahn	31,276

The staff still remaining on December 31st, 1925, is as follows:

Central Administration	51,940
Undertakings	46,293
Total	98,233
Federal Railways	64,452
Total	162,685
Sudbahn	20,092
Grand Total	182,777

III. Revenue.

Customs.

According to the Reconstruction Law, the existing Customs Tariff Law of February 13th, 1906, together with the laws and regulations issued in connection therewith, was to remain in force until the preparation of a new Customs Tariff Law was completed.

At the same time the so-called Revenue Customs Tariff and the first supplementary law of 1922 concerning the Customs tariff were to be so modified as to ensure from Customs an annual yield of 80 million gold crowns (115,200,000 schillings). This amount was to be increased within two years by gradually raising

the duties until it reached 100 million gold crowns (144,000,000 schillings).

This programme was kept to. The object in view was obtained; at first, and until the coming into force of the new Customs Tariff Law, by the second supplementary law on the Customs tariff of 1922, and a further supplementary law of 1923, both of which raised the rates on dutiable articles and on certain costly foodstuffs; later, by increased trade in consequence of commercial treaties with Italy, France and Belgium.

On January 1st, 1925, the present Customs tariff came into force, together with the modifications introduced into the treaty supplementing the German Economic Agreement and the French Convention, and into the supplementary Convention with the Czechoslovak Republic. Next followed the commercial agreements with Spain, Greece, Kingdom of the Serbs, Croats and Slovenes, and Portugal, a further Convention with Czechoslovakia, the commercial treaties with Switzerland and Hungary and supplementary agreements with Germany and Czechoslovakia.

Revenue from Customs amounted in 1925 to 196.53 million schillings (approximately 136.5 million gold crowns).

Monopolies.

The Tobacco Monopoly.

The Reconstruction Law provided for a percentage yield from the tobacco monopoly equal to the pre-war percentage.

The pre-war ratio (1914) between profits and total receipts amounted to 64.6 per cent.

If the receipts and expenses of the tobacco monopoly for the different years are ascertained according to the estimates and the closed accounts for 1913, the ratio between profits and total receipts is as follows:

	Percentage of total receipts
Profits according to cash books for 1914	64.6
» » » » 1923	52.0
» » » » 1924	54.8
» » » » 1925	57.6
» » » » 1926 (estimated)	60.8

The net profits from the tobacco monopoly, according to the cash books, amounted in 1913, for the territory of what is now Austria, to approximately 89 million gold crowns = 128.2 millions of schillings.

1923	87.0	millions of schillings
1924	133.6	» »
1925	157.4	» »
1926 (estimated)	148.4	» »

The measures taken to restore the yield from the tobacco monopoly were the following:

1. Gradual increase in the price of tobacco manufactures up to a point which would assure the yield from the tobacco monopoly as estimated and approved.
2. The reorganisation and economic management of the tobacco factories—in particular, mechanical improvements on a large scale; intensive labour methods; an increase in the output of workmen and employees, whereby it was possible to reduce the personnel of the tobacco monopoly from approximately 10,400 to the present figure of about 8,000; the obtaining of the necessary supplies of raw and auxiliary material in the manufacture of tobacco, and supplies of packing material.
3. The introduction of commercial book-keeping.
4. Measures to promote sales.

The sums necessary to secure the service of the League of Nations loan for 1925, amounting to about 103.50 million schillings, was covered nearly fivefold by the receipts from Customs and from the tobacco monopoly, which in 1925 amounted together to approximately 499 million schillings.

The Salt Monopoly.

In order to place the working of the salt monopoly on a commercial basis, the management was taken out of the hands of the central administration and, from January 1st, 1926, transferred to the "General Administration of Austrian Salt Works," the director of which is immediately subordinate to the Federal Minister for Finance.

The Salt Office attached to the Provincial Finance Department at Linz, which had been a managing branch, was closed down and the work of this office taken over by the General Administration of Austrian Salt Works.

The General Administration immediately proceeded to simplify business and to prepare the way for far-reaching economies in the production of and retail trade in salt (especially by restrictions of credit).

A comparison of the yield from the salt monopoly in 1913 and 1925 shows the following results:

Receipts:	1913 (schillings)	1925 (schillings)
Retail sales	20,181,600	23,821,578
Other	712,800	1,318,462
Total	20,894,400	25,140,040
Expenses:		
Staff	4,465,400	8,534,564
Material	2,842,400	4,843,815
Total	7,307,800	13,378,379
Profit	13,586,600	11,761,661

The profit for 1925 is only apparently smaller than the net pre-war yield, for it must be borne in mind that the salt monopoly has to bear burdens to-day which it did not have to bear in peace-time, such as:

	Schillings
1. The abnormally heavy pension charge of 3,143,533 schillings due to reductions of staff; under normal conditions the burden would only be one-quarter of this amount and is thus too heavy by	2,357,650
2. Household grants	226,200
3. Sickness insurance for employees	11,016
And pensioners	6,752
4. Unemployment insurance	76,608
5. "Welfare Duty" *(Fursorgeabgabe)*	208,000
And the business tax *(Betriebsabgabe)*	34,000
That is to say, altogether	2,920,276
If this sum is added to the profit of	11,761,661
The result will be a total of	14,681,887
Which exceeds the net pre-war yield of	13,586,600
by	1,095,287

The yield from the salt monopoly during the first months of 1926 is better than in the corresponding period of last year, owing to both larger receipts and smaller expenses.

The Turnover Tax.

The turnover tax is, in principle, leviable upon all deliveries of goods and other paid services effected by an industrial undertaking. The tax amounts to 1 per cent of the price obtained and to 12 per cent of the price for luxury articles The Reconstruction Law was authorised to raise the general turnover tax by 2 per cent of the turnover as from 1924. This authorisation to increase the tax did not apply to the 12 per cent tax on luxuries Articles for export are exempt from the tax.

The tax first came into force on April 1st, 1923, and the rate was raised from 1 per cent to 2 per cent of the turnover as from January 1st, 1924. From the standpoint of financial administration, its assessment and collection are most satisfactory. It has become one of the mainstays of the Budget; it produces 200 million schillings annually, is not found to be too oppressive, and the costs of administration are very small.

When it is considered that the total gross revenue from the central administration in Austria is estimated for 1926 at 755 millions and that the turnover tax therefore comprises more than one-quarter of this revenue, it is permissible, when discussing the composition of the Federal revenue during the period of reconstruction, to lay special emphasis on this tax, whose introduction into Austria coincided with the beginning of that period.

Taxes on Consumption.

The measures enforced as regards these taxes resulted in the following yields for 1923, 1924 and 1925:

	1923	1924	1925
	(Millions of schillings)		
Brandy tax	18.6	24.22	24.97
Beer tax	20.11	25.56	31.17
Wine tax	21.28	21.80	17.61
Tax on sparkling wines	0.54	0.71	0.58
Mineral-water tax	0.12	0.18	0.21
Sugar tax	5.08	6.52	8.79

Direct Taxes.

In execution of the Reconstruction Law, a regularly recurring tax on the capital of individuals of ½ to 3 per cent was reintroduced through the Personal Tax Law of 1924.

The general tax on profits, which had hitherto been assessed on the external appearance of businesses and to which were attached provincial and communal supplementary taxes, was converted into a tax of 2 to 10 per cent on net profits free of these supplements, resulting in an increased charge, as compared with the earlier system.

Side by side with these increases the Reconstruction Law provided also for a reduction of taxation. In pursuance of the principles of the Reconstruction Law, the minimum taxable income for purposes of income-tax was raised to 1,000 units of taxation (for the 1924 assessment, 1,200 units). This measure was incorporated in the Personal Taxation Law of 1924. The Reconstruction Law had laid down a minimum income of only 600 units of taxation.

The maximum rate of taxation was reduced from 60 per cent to 45 per cent.

By the Corporation Tax Law of 1924, the normal rate of 36 per cent was fixed for the corporation tax, which, inclusive of the Federal super-tax, had hitherto amounted to 42 to 50 per cent according to the taxable capacity of the corporation.

In discussing subsequent measures of taxation, it must be remembered that, in 1924, changes were made in the execution of the reforms in virtue of the September Agreement. That Agreement included several fiscal alleviations and various measures to promote economic prosperity.

In pursuance of this Agreement, the rate of the corporation tax was reduced by the Personal Tax Law of 1925 to 25 per cent.

This law also provided for a reduction in the general tax on profits from 2 to 10 per cent to 1 to 7½ per cent, the lower groups being at the same time extended.

As regards the income-tax, the Law of 1925 raised the minimum taxable income to 1,400 schillings, the interval between the graduation being enlarged in the case of smaller incomes.

In addition to these fundamental modifications in the Personal Taxation Law, a number of laws were enacted providing tax alleviations in view of special economic conditions or the economic crisis in general.

These alleviations consist partly of temporary remissions, partly in reductions of the rate of tax and partly again in substantial concessions in determining the basis of taxation.

Among these legal measures special mention should be made of:

1. The Law of 1923 for the encouragement of building.
2. The Law of 1924 on the granting of alleviations of duties and taxes on the bonds held by manufacturing, commercial and transport enterprises.
3. The Electricity Development Law of 1925.
4. The Gold Balance-sheet Law of 1925.
5. The Law of 1926 to encourage investment.
6. The Tax Amnesty Law of 1926.

Of the above laws, those mentioned under 1 and 2 were already in force before the September 1924 Agreements.

The Electricity Development Law created a strong inducement from the fiscal point of view to develop and extend waterworks.

Of special importance to Austria from the economic and fiscal point of view is the Gold Balance-sheet Law, in virtue of which private business undertakings in Austria have once again begun to publish true and intelligible balance-sheets.

Duties and Taxes on Commercial Transactions.

The turnover tax, which is included among the taxes on commercial transactions, was dealt with in another part of this report.

Other measures concerned with duties and taxes on commercial transactions during the period of reconstruction include, in the first place, increases of the permanent stamp duties and of the stamp duties on playing-cards, the revision of scales for duties and of the regulations regarding the duties on coupon stamps and, further, the fresh promulgation of the tariff for general duties combined with the regulations regarding legal fees.

In the subsequent course of the work of reconstruction, remissions of taxation were also introduced for economic reasons in respect of duties and taxes on commercial transactions.

1. The Law of 1924 on duties and railway traffic taxes reduced the railway traffic taxes — that is to say, taxes on freight, passenger tickets and goods — to one-sixth of the former rate, with effect as from September 1st, 1924. The consequent diminution in the yield of railway traffic taxes may be estimated for one year at about 120 million schillings. This diminution is not apparent in the Federal Budget, because, owing to the reduction of taxation,

the railway tariffs were left unchanged. This made it possible to avoid raising the railway tariffs too high.

2. In virtue of the September 1924 Agreement and by means of the second Turnover Tax Law of 1924, the taxes on exchange transactions and the bank turnover tax were reduced by one-hundredth part of the original rate, with effect as from November 1st, 1924. The loss to the Treasury amounts to about 27 million schillings a year.

3. The turnover tax on share transactions was modified by Decrees of 1924 and 1926. The annual loss is about 2 million schillings.

4. For economic reasons, various laws, mostly affecting other branches of the administration, provided, among other things, also for the reduction of duties.

Annex II shows the revenue, estimated and realised, from the most important direct and indirect taxes during 1923, 1924 and 1925.

Annex II.

REVENUE FROM THE MOST IMPORTANT FEDERAL TAXES FOR 1923 TO 1925.

	According to closed accounts for	Estimated	Laid down (*Vorgeschrieben*)	Collected
		Schillings		
Direct taxes:				
General tax on profits	1923	4,066,960.—	14,644,394.11	14,644,394.11
	1924	14,500,000.—	23,785,250.29	23,785,250.29
	1925	25,000,000.—	51,913,839.44	51,913,839.44
Corporation tax	1923	11,334,800.—	36,073,185.25	36,073,185.25
	1924	40,000.000.—	97,331,163.05	97,331,163.05
	1925	40,000,000.—	50,949,208.21	50,949,208.21
Tax on annuities	1923	182,160.—	1,565,942.34	1,565,942.34
	1924	670,000.—	7,753,959.04	7,753,959.04
	1925	5,000,000.—	15,392,671.—	15,392,671.—
Income-tax	1923	50,941,200.—	108,208,813.54	108,208,813.54
	1924	95,000,000.—	143,719,039.99	143,719,039.99
	1925	125,000,000.—	145,400,362.63	145,400,362.63

REVENUE FROM THE MOST IMPORTANT FEDERAL TAXES FOR 1923 TO 1925 *(Continued).*

	According to closed accounts for	Estimated	Laid down (*Vorgeschrieben*)	Collected
		Schillings		
Tax on indiv. capital	1923	—	—	—
	1924	10,000,000.—	525,361.16	525,361.16
	1925	15,000,000.—	10,664,623.36	10,664,623.36
Customs	1923	113,200,000.—	99,698,913.93	99,698,913.93
	1924	123,840,000.—	138,787,527.—	138,787,527.—
	1925	174,000,000.—	196,527,826.49	196,527,826.49
Consumption taxes:				
Brandy tax (including tax on pressed yeast)	1923	13,957,275.—	18,096,980.53	18,450,421.29
	1924	16,000,000.—	23,735,455.97	22,702,218.81
	1925	19,200,000.—	23,531,359.57	24,553,328.73
Supervision duty on brandy free of tax	1923	110,000.—	479,213.87	479,213.87
	1924	300,000.—	426,397.76	426,397.76
	1925	660,000.—	368,289.24	368,289.24
Licence duties . . .	1923	200.—	71,049.04	71,119.68
	1924	60,000.—	58,905.47	58,750.88
	1925	60,000.—	55,500.31	55,688.86
Beer tax	1923	11,418,000.—	20,112,766.07	19,820,281.20
	1924	19,000,000.—	25,562,370.98	25,607,119.07
	1925	25,000,000.—	31,595,555.59	31,189,605.04
Wine tax with supervision duty .	1923	13,298,480.—	21,053,457.31	21,053,457.31
	1924	14,300,000.—	21,802,205.18	21,802,205.18
	1925	17,250,000.—	17,627,514.68	17,610,299.09
Supplementary tax on wine	1923	999,500.—	229,694.81	229,694.81
	1924	—	—	—
	1925	—	—	—

Revenue from the most important Federal Taxes for 1923 to 1925
(Continued).

	According to closed accounts for	Estimated	Laid down *(Vorgeschrieben)*	Collected
		Schillings		
Tax on sparkling wines	1923	57,970.—	545,888.61	545,888.6
	1924	180,000.—	706,688.03	706,688.0
	1925	550,000.—	577,351.76	576,961.3
Mineral-water tax .	1923	93,950.—	120,023.19	120,023.1
	1924	80,000.—	176,540.23	176,540.2
	1925	120,000.—	209,122.60	208,622.6
Sugar tax	1923	3,298,800.—	5,078,611.35	5,078,761.4
	1924	4,200,000.—	6,516,547.31	6,463,704.3
	1925	7,500,000.—	8,904,729.64	8,795,823.8
Tax on matches . .	1923	1,349,300.—	997,333.32	997,333.3
	1924	1,000,000.—	1,497,416.97	1,497,416.9
	1925	1,400,000.—	1,542,489.14	1,542,489.1
Duties:				
Stamp duties and legal fees	1923	33,950,000.—	82,447,937.25	73,739,962.7
	1924	40,915,000.—	94,477,411.46	80,815,310.9
	1925	54,600,000.—	109,119,845.71	96,272,830.6
Railway traffic taxes	1923	88,500,000.—	89,861,538.61	89,861,538.6
	1924	2,400,000.—	4,109,792.07	4,109,792.0
	1925	250,000.—	4,704,684.26	2,231,508.1
Turnover taxes:				
Tax on turnover of share transactions.	1923	9,960,000.—	21,047,385.80	21,047,385.8
	1924	15,000,000.—	11,657,059.59	11,657,059.5
	1925	5,000,000.—	2,640,052.10	2,628,568.2

REVENUE FROM THE MOST IMPORTANT FEDERAL TAXES FOR 1923 TO 1925 *(Continued)*.

	According to closed accounts for	Estimated	Laid down (*Vorgeschrieben*)	Collected
		Schillings		
Tax on turnover of exchange transactions	1923	9,500,000.—	11,419,545.11	11,419,545.11
	1924	10,000,000.—	10,847,175.60	10,847,149.07
	1925	100,000.—	251,850.26	251,216.45
Bank turnover tax	1923	11,500,000.—	16,539,200.74	16,539,200.74
	1924	15,000,000.—	15,646,908.02	15,646,908.02
	1925	100,000.—	324,432.77	323,066.76
Goods turnover tax	1923	44,980,000.—	55,993,127.—	55,735,986.26
	1924	140,000,000.—	202,658,207.77	200,709,702.07
	1925	180,000,000.—	225,860,576.76	223,291,132.37

IV. PROVINCIAL AND COMMUNAL FINANCES.

Reforms and Economies.

Compared with the situation in 1923, the number of members of the provincial Governments has been reduced by means of provincial laws in several of the Federal States.

The duplication of political administration, consisting in the treatment of the same questions both by the Federal administration and by the independent provincial administration, was put an end to by a constitutional law, which transferred political administration in the provinces, hitherto in the hands of the Federal Government, to the provinces themselves.

In return for taking over the cost of maintaining the personnel and material of political administration, the provinces received compensation amounting to 20 million schillings per annum, which is distributed between the provinces on the basis of the

normal costs of political administration. The Federal Government was able to contribute this amount because it had saved approximately the same sum by the decentralisation of political administration.

In order that the administration of the provincial finances might be independently and impartially controlled, the competence of the Court of Accounts was extended by the constitutional law of July 30th, 1925, to include provincial administration.

Vienna is an exception. Vienna has a Control Office with a very wide measure of independence. In Vienna, supervision would have had to extend also to the administration of communal finances, which is inseparable from that of the provincial finances, whereas all the other communes would have remained free from the control of the Court of Accounts.

Most of the provinces have made use of the facilities given them by the constitutional law to create their own control institutions, possessing a certain independence, and thereby to confine control by the Court of Accounts to examining the arithmetical accuracy and the regularity of the financial administration.

A reduction of the staff of the provincial and communal administrations was impossible to an extent even approaching that effected in the Central Administration, because the work incumbent on the provinces and communes, after the collapse of the old Empire, remained essentially the same as before and in some respects indeed increased in extent.

The Finances of the Provinces and Communes.

The granting of loans to provinces and communes ceased at the end of 1922, except for the so-called transitional grants-in-aid made to the provinces (but not to the communes) during the first quarter of 1923 with the approval of the Commissioner-General.

The total of loans granted amounts to 37.5 million schillings. The loans which had already become due were repaid. The greater part of the loans will not fall due until 1927-28; nevertheless, part has already been redeemed in advance out of shares of the provinces and communes in joint taxes.

The granting of subventions to meet expenditure by the provinces and communes on officials was reduced in accordance with the scheme and ceased at the end of 1924.

The granting of subventions to meet expenditure by the provinces and communes on officials was reduced in accordance with the scheme and ceased at the end of 1924.

In consequence of increased receipts from taxes common to the Federal Government and the provinces (communes), the provinces (communes) have together received large sums in respect of their shares in these taxes, namely:

	Millions of Schillings
1923	122.1
1924	196.4
1925	200.7

This participation in the joint taxes and the full utilisation of their sources of revenue, particularly of the real taxes left in their hands to collect, made it possible for the provinces and communes to reform their finances, so that in 1923 and 1924 they were able in the main to balance their budgets. The same applies, generally speaking, to 1925, but figures are not yet available.

Unification of the Financial Policy of the Federal Government and the Provinces.

The third constitutional law on finances gave the Federal Government an absolute right of veto until the end of 1930 over legal decisions of the provinces regarding provincial (communal) taxes. The only exceptions to this absolute veto are provincial taxes on the ownership of buildings and on housing expenditure, and also certain communal institutions. In these exceptional cases the previous procedure has been retained (decision by a Parliamentary Committee in the event of a protest by the Federal Government).

The third constitutional law on finance also abolished the possibility that had hitherto existed of passing a provincial law conferring on all or on certain communes the unrestricted right to impose taxation.

These regulations, which imposed upon the provinces a restriction of their fiscal independence, enable the Federal Government to exercise influence on the fiscal policy of the provinces and communes, to promote unification in the fiscal policy of the Federal

Government and the provinces (communes) and to pay the requisite regard to taxable capacity and the total burden of taxation.

The law which was passed at the same time as the third constitutional law on finance and which laid down general regulations for provincial and communal taxes remedied certain defects in the fiscal legislation of the provinces (double taxation in the case of the welfare tax and of the automobile tax), and, above all, it sanctioned the exemption of electric current on railways from the electricity tax — a provision of great importance to the continuation of electrification work.

Like the Federal Government, the provinces and communes were compelled in the first days of reconstruction to exploit their autonomous taxes very extensively; nevertheless, they too are now showing a tendency to reduce the burden of taxation.

* * *

The present Memorandum confines itself in the main to recording the most important legal and administrative measures which have been taken in pursuance of the Reconstruction Law and the Reconstruction Scheme in the sphere of Federal, provincial and communal administration. Generally speaking, no attempt has been made to estimate the value of the various measures or to describe their effects in other fields than those of the Federal Budget and the provincial and communal finances.

In view of the closed accounts for 1925, and after an examination of the general economic and financial situation of Austria, the League of Nations Council declared, at its meeting of June 9th, 1926, on the recommendation of the Financial Committee, that the financial stability of Austria was assured.

IV

PROTOCOLS CONTAINING THE SCHEME FOR THE FINANCIAL RECONSTRUCTION OF AUSTRIA.

Elaborated by the Council of the League of Nations and signed at Geneva, October 4th, 1922.

PROTOCOL No. I.

Declaration.

THE GOVERNMENT OF HIS BRITANNIC MAJESTY, THE GOVERNMENT OF THE FRENCH REPUBLIC, THE GOVERNMENT OF HIS MAJESTY THE KING OF ITALY, AND THE GOVERNMENT OF THE CZECHOSLOVAK REPUBLIC,

Of the one part,

At the moment of undertaking to assist Austria in her work of economic and financial reconstruction,

Acting solely in the interests of Austria and of the general peace, and in accordance with the obligations which they assumed when they agreed to become Members of the League of Nations,

Solemnly declare:

That they will respect the political independence, the territorial integrity and the sovereignty of Austria;

That they will not seek to obtain any special or exclusive economic or financial advantage calculated directly or indirectly to compromise that independence;

That they will abstain from any act which might be contrary to the spirit of the conventions which will be drawn up in common with a view to effecting the economic and financial reconstruction of Austria, or which might prejudicially affect the guarantees demanded by the Powers for the protection of the interests of the creditors and of the guarantor States;

And that, with a view to ensuring the respect of these principles by all nations, they will, should occasion arise, appeal, in accordance with the regulations contained in the Covenant of the League of Nations, either individually or collectively, to the Council of the League, in order that the latter may consider what measures should be taken, and that they will conform to the decisions of the said Council;

THE GOVERNMENT OF THE FEDERAL REPUBLIC OF AUSTRIA,

Of the other part,

Undertakes, in accordance with the terms of Article 88 of the Treaty of St. Germain, not to alienate its independence; it will abstain from any negotiations or from any economic or financial engagement calculated directly or indirectly to compromise this independence.

This undertaking shall not prevent Austria from maintaining, subject to the provisions of the Treaty of St. Germain, her freedom in the matter of Customs tariffs and commercial or financial agreements, and in general, in all matters relating to her economic regime or her commercial relations, provided always that she shall not violate her economic independence by granting to any State a special regime or exclusive advantages calculated to threaten this independence.

The present Protocol shall remain open for signature by all the States which desire to adhere to it.

In witness whereof the undersigned, duly authorised for this purpose, have signed the present Declaration (Protocol I).

Done at Geneva in a single copy, which shall be deposited with the Secretariat of the League of Nations and shall be registered by it without delay, on the fourth day of October one thousand nine hundred and twenty-two.

(Signed) BALFOUR.
G. HANOTAUX.
IMPERIALI.
KRČMÁŘ.
POSPISIL.

(Signed) SEIPEL.

PROTOCOL No. II.

With the object of assisting Austria in the work of her economic and financial restoration, the BRITISH, FRENCH, ITALIAN, CZECHOSLOVAK and AUSTRIAN GOVERNMENTS have by common consent drawn up the following provisions:

Article 1.

The *Austrian Government* may create, under the guarantee resulting from the present Convention, the amount of securities necessary to yield an effective sum equivalent to not more than 650 millions of gold crowns. The capital and interest of the securities so issued shall be free from all taxes, dues or charges for the benefit of the Austrian State.

Article 2.

The expenses of issue, of negotiation and of delivery shall be added to the capital of the loan as fixed under the preceding Article.

Article 3.

The service of the interest and amortisation of the loan shall be assured by means of an annuity provided by the revenues assigned as security for this loan in accordance with the provisions contained in Protocol III.

Article 4.

The yield of the loan may not be employed except under the authority of the Commissioner-General appointed by the Council of the League of Nations and in accordance with the obligations contracted by the Austrian Government and set out in Protocol III.

Article 5.

The *British, French, Italian and Czechoslovak Governments,* without prejudice to action by other Governments which may accede to the present Convention, undertake to ask without delay from their Parliaments authority to guarantee (subject always to the approval by the Austrian Parliament of Protocol III, and to the voting by that Parliament of the law contemplated in Article 3 of the said Protocol) the service of the annuity of

this loan, up to a maximum of 84 per cent, to be shared under special arrangements between the parties concerned.

Article 6.

Each of the four Governments shall have power to appoint a representative on the Committee of Control the functions of which are determined by the provisions set out below. Each such representative shall have twenty votes. Those Governments which may agree to guarantee the remainder of the annuity which is not covered by the guarantee of the British, French, Italian and Czechoslovak Governments shall in like manner have power either to appoint one representative each, or to agree among themselves to appoint common representatives. Each representative shall have one vote for every 1 per cent guaranteed by his Government.

Article 7.

The method of application of the guarantee, the conditions of the loan, the issue price, the rate of interest, the amortisation, the expenses of issue, of negotiation and of delivery, shall be submitted for the approval of the Committee of Control constituted by the guarantor States. The amount of the annuity necessary for the service of interest and amortisation of the loan shall likewise be approved by the Committee of Control. Every loan proposed by the Austrian Government, and not falling within the conditions of the programme contemplated in Protocol III, shall first be submitted for the approval of the Committee of Control.

Article 8.

The Committee of Control shall determine the conditions under which the advances by the Governments should be effected in the event of the guarantee coming into operation, and the method of repaying such advances.

Article 9.

Within the limits fixed by the contracts under which they are issued, the Austrian Government shall have the right to effect conversion of the loans with the consent of the Committee of Control; it shall be obliged to exercise this power on the request of the Committee of Control.

Article 10.

The Committee of Control shall have the right to require the production of periodical statements and accounts and any other information urgently needed in regard to the administration of the revenues assigned as security; it may bring to the attention of the Commissioner-General any administrative changes and improvements calculated to increase their productivity. Any changes in the rates producing such revenues which might be such as to reduce their minimum total yield, expressed in gold, as this may be determined before the issue of the loans in order to provide the necessary annuities, shall first be submitted for the approval of the Committee of Control. The same rule shall apply to proposed contracts for the concession or farming out of those revenues.

Article 11.

In case the yield of the assigned revenues should be insufficient and should involve a possibility of bringing into operation the guarantee of the Governments, the Committee of Control may require that other revenues sufficient to meet the service of the annuity shall be assigned as security.

Any draft instrument or contract which is likely materially to change the nature, condition or administration of the public domain of Austria shall be communicated to the Committee three weeks before the instrument becomes final.

Article 12.

The Committee of Control shall meet from time to time at such dates as it may itself determine, preferably at the seat of the League of Nations. It shall communicate only with the Commissioner-General, who shall be present or shall be represented at the meetings of the Committee of Control. The decisions of the Committee shall be taken by an absolute majority of the votes present; provided always that a majority of two-thirds of the votes present shall be required for any decisions under Articles 7 and 8.

An extraordinary meeting of the Committee of Control shall be convened on a request supported by not less than ten votes.

Article 13.

The Committee of Control, or any one of its members, may demand any information or explanations as to the elaboration and the execution of the programme of financial reform. The Committee may address any observations or make any representations to the Commissioner-General which it recognises to be necessary to safeguard the interests of the guarantor Governments.

Article 14.

In the event of abuse, the Committee of Control or any guarantor State may appeal to the Council of the League of Nations, which shall give its decision without delay.

Article 15.

In the event of any difference as to the interpretation of this Protocol, the parties will accept the opinion of the Council of the League of Nations.

In faith whereof the undersigned, duly authorised for this purpose, have signed the present Protocol.

Done at Geneva in a single copy, which shall be deposited with the Secretariat of the League of Nations and shall be registered by it without delay, on the fourth day of October, one thousand nine hundred and twenty-two.

(*Signed*) BALFOUR.
G. HANOTAUX.
IMPERIALI.
KRČMÁŘ.
POSPISIL.

(*Signed*) SEIPEL.

Annexes to Protocol II.

PREAMBLE.

1. The guarantee granted by the States signatories of Protocol II shall be employed for an Austrian loan of 650 million gold

crowns, bonds for which shall all be of the same character and shall offer the same security, the Financial Committee having calculated that the Austrian deficit needs to be increased from 520 to 650 million gold crowns so as to take into account the advances made by certain Governments in the course of this year, which carry the right to repayment either from the proceeds of the loan organised by the League of Nations, or in securities enjoying the same guarantees and the same advantages.

2. In order, however, that the advances which may result from the guarantee of that part of the Austrian loan which should be devoted to the repayment of advances already made may not devolve on States not interested in this repayment, and in order that the sacrifices which may ultimately have to be asked of those States should not be greater than those which would be entailed in the guarantee by them of a loan of 520 million gold crowns, the Governments entitled to repayments from the Austrian Government (the British, French, Italian and Czechoslovak Governments) have laid down the provisions which form the subject of Annex B.

Annex A.

The French, Italian and Czechoslovak Governments undertake to assign for the guarantee of the issues of Treasury bonds or similar Treasury operations, guaranteed by the gross receipts of the Customs and tobacco monopolies and envisaged in the report of the Financial Committee for the period previous to the vote by the various Parliaments of authority for the guarantees, the balance of the advances promised in 1922 to the Austrian Government, the total amount of which was fixed at:

France	55 million francs,
Italy	70 million lire,
Czechoslovakia . .	500 million Czechoslovak crowns.

By the word " balance " should be understood not only the sums not yet paid in respect of the above totals, but those which, having been paid, might be capable, by reason of their present employment, of being liberated for a different use with the consent of the Austrian Government. As soon as this has been obtained,

the balances, as here defined, should be placed without delay at the disposal of the Austrian Government to be utilised — under the authority of the Commissioner-General or of the provisional delegation of the Council — in the Treasury operations referred to above.

As soon as the legislation voted by the various Parliaments authorising guarantees shall have obtained a total of at least 80 per cent, the balances of the advances thus utilised as guarantees shall be liberated and reimbursed to the Governments interested.

Done at Geneva on October the fourth, one thousand nine hundred and twenty-two.

(Signed) BALFOUR.
G. HANOTAUX.

(Signed) IMPERIALI.
KRČMÁŘ.
POSPISIL.

ANNEX B.

The apportionment of the guarantee between the four Governments, British, French, Italian and Czechoslovak, provided for in Article 5 of Protocol II and paragraph 2 of the preamble shall take place in accordance with the following provisions.

1. The guarantee of the annuities corresponding to the sum of 130 millions required for the reimbursement of the advances referred to in the first paragraph of the preamble shall be apportioned as to one-third to each of the British, French and Czechoslovak Governments.

2. With regard to the sum required for the reimbursement of the Czechoslovak credit, amounting to about 80 million gold crowns, the Czechoslovak Government undertakes to limit to 60 million gold crowns the total of the reimbursement which it will have the right to claim from the proceeds of the loan. It will accept, in payment of this share of 60 millions, bonds of this loan issued over and above the total of the effective subscriptions. With regard to the balance of this claim, it will be satisfied that it should be covered by securities in Czechoslovak crowns and enjoying the same rights and guarantees as the bonds of the loan, but it is understood that these securities shall not benefit

by the guarantee of the other Governments, and may be issued in excess of the sum of 650 millions.

The British and French Governments, which are entitled, by the terms of their contracts, to complete reimbursement of the amount of their advances out of the proceeds of the first loan, accept a scale of progressive repayment, charging the larger part of the repayment on the later instalments of the loan.

Italy shall have the right of reimbursement out of the proceeds of the loan in accordance with a scale of payment identical with that adopted for the English claim, on that part of its advance which shall not have been repaid after having been utilised in accordance with the terms in Annex A. In the case of the guarantee coming into force, Italy shall, in respect of the guarantee of the 130 millions, be responsible only for the liability appertaining to that part of the annuity of the loan which corresponds to the total.

To the extent to which Italy shall thus be led to assume a portion of the guarantee of the 130 millions, the share of the guarantee borne by France, Czechoslovakia and Great Britain shall be correspondingly diminished

Done at Geneva, the fourth day of October, one thousand nine hundred and twenty-two

(Signed) BALFOUR.
G. HANOTAUX.
IMPERIALI.
KRČMÁŘ.
POSPISIL.

(Signed) SEIPEL.

EXPLANATORY NOTE.

From a comparison of Article 5 of Protocol II (which fixes at a maximum of 84 per cent the guarantee to be given by the four Governments and to be apportioned as may be arranged) with the Preamble and with Annex B, it follows:

That each of the four Governments undertakes to guarantee 20 per cent of the annuity corresponding to the capital of the loan floated to meet the deficit of 520 millions;

That the apportionment of the guarantee for the remainder of the annuity, which corresponds to the difference (130 millions) between the total of 650 and this sum of 520 millions, will be made in accordance with Annex B.

(Signed) BALFOUR.
G. HANOTAUX.
IMPERIALI.
KRČMÁŘ.
POSPISIL.

PROTOCOL No. III.

The undersigned, acting in the name of the Austrian Government, and duly authorised for this purpose, declares that he accepts the following obligations:

1. The Austrian Government will ask its Parliament to ratify the political declaration signed by it which is the subject of Protocol I.

2. The Austrian Government will, within one month, in collaboration either with the Commissioner-General, whose functions form the subject of paragraph 4 below, or such provisional delegation of the Council of the League of Nations as may be appointed for the purpose, draw up a programme of reforms and improvement, to be realised by stages and designed to enable Austria to re-establish a permanent equilibrium of her budget within two years, the general outline of which is defined in the report of the Financial Committee [1]. This programme must place Austria in a position to satisfy her obligations by the augmentation of her receipts and the reduction of her expenditure; it will exclude any recourse to loans except under the conditions determined by it; it will prohibit, by the terms of the statutes to be drawn up for the Bank of Issue which is to be created, any further monetary inflation.

It should further enable Austria to assure her financial stability on a permanent basis by a series of measures leading to a general economic reform. The report of the Economic Committee dealing with this aspect of the problem shall be duly communicated to the Commissioner-General.

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[1] "Reply of Financial Committee to Questions referred to it by Austrian Committee of Council." September 1922 (see Chapter VII (I)).

It is understood that, if the first programme should appear in practice to be insufficient to re-establish permanent equilibrium of the Budget within two years, the Austrian Government will be bound, in agreement with the Commissioner-General, to introduce therein the modifications appropriate to the result which it is essential to attain. The Austrian Government will ask its Parliament to approve the above-mentioned plan.

3. The Austrian Government will forthwith lay before the Austrian Parliament a draft law giving during two years to any Government which may then be in power full author~~ity to take all~~ ~~measures, within the limits of this~~ programme, which in its opinion may ~~be necessary to~~ assure at the end of the period mentioned the re-establishment of budgetary equilibrium without there being any necessity to seek for further approval by Parliament.

4. Austria accepts the nomination by the Council of the League of a Commissioner-General who shall be responsible to the Council and removable by it. His functions are defined in broad outline in the report of the Financial Committee.

~~His duty~~ will be to ensure that the programme of reforms is carried out and to supervise its execution. The Commissioner-General shall reside at Vienna. He may provide himself with the necessary technical personnel. The expenses of the Commissioner-General and of his office shall be approved by the Council and supported by the Austrian Government. The Commissioner-General shall present monthly to the Council a report upon the progress of the reforms and the results achieved. This report shall be communicated without delay to the members of the Committee of Control.

The Austrian Government agrees that it may not dispose of any funds derived from loans, or undertake any operation with a view to discounting the proceeds of loans, except by authorisation of the Commissioner-General; provided that the conditions which the Commissioner-General may attach to such authorisation shall have no other object than that of assuring the progressive realisation of the programme of reforms and of avoiding any deterioration of the assets assigned for the service of the loan.

If the Austrian Government considers that the Commissioner-General has abused his authority, it may appeal to the Council of the League of Nations.

The functions of the Commissioner-General shall be brought to an end by a decision of the Council of the League of Nations, when the Council shall have ascertained that the financial stability of Austria is assured, without prejudice to any special control of the assets assigned for the service of the loan.

5. The Austrian Government will furnish as securities for the guaranteed loan the gross receipts of the Customs and of the tobacco monopoly, and if the Commissioner-General should deem it necessary, other specific assets determined in agreement with him. It will not take any measure which in the opinion of the Commissioner-General would be such as to diminish the value of such assets so as to threaten the security of the creditors and of the guarantor States. In particular, the Austrian Government may not, without the approval of the Commissioner-General, introduce into the rates producing the revenues assigned as security any changes which might be such as to reduce their minimum total yield expressed in gold as this may be determined, before the issue of the loans, in order to provide for the neccessary annuities.

The yield of the gross revenues assigned as security will be paid into a special account, as and when collected, for the purpose of assuring the service of the annuity of the loans. The Commissioner-General may alone control this account. The Commissioner-General may require such modifications and improvements as may increase the productivity of the revenues assigned as security. If, notwithstanding such representations, it should appear to him that the value of these assets is seriously prejudiced by their management by the Austrian Government, he may require that this management shall be transferred to a special administration, either by the constitution of a Government monopoly, or by the grant of concessions or of leases.

6. (*a*) The Austrian Government undertakes to grant no concessions which, in the opinion of the Commissioner-General, might be such as to compromise the execution of the programme of reforms.

(*b*) The Austrian Government will surrender all right to issue paper money and will not negotiate or conclude loans except in conformity with the programme above set out and with the authorisation of the Commissioner-General. If the Austrian Government should consider itself obliged to envisage the issue of loans

not covered by the conditions of the programme contemplated in this Protocol, it would first submit such plans for the approval of the Commissioner-General and of the Committee of Control.

(*c*) The Austrian Government will ask its Parliament to make such modifications as are considered necessary, in accordance with the report of the Financial Committee [1] both in the statutes of the Bank of Issue and, should the occasion arise, in the Law of July 24th, 1922 (*Bulletin des Lois*, No. 490). The statutes of the Bank of Issue shall assure its complete autonomy in its relations with the Government. The Bank should be responsible for the cash transactions of the State, it should centralise the Government's receipts and payments and should furnish periodical financial statements at the dates and in the form which may be determined in agreement with the Commissioner-General.

(*d*) The Austrian Government will take and carry out all decisions necessary for the full realisation of the programme of reforms, including all necessary administrative reforms and the indispensable alterations in the legislation.

7. The Austrian Government will take all measures necessary to ensure the maintenance of public order.

8. All obligations defined above relating to the functions of the Commissioner-General or to financial or administrative reforms, so far as they relate to a period subsequent to January 1st, 1923, are conditional and shall not become finally binding until the British, French, Italian and Czechoslovak Governments have confirmed their promised guarantees by the approval of their respective Parliaments.

Nevertheless, the Austrian Government definitely undertakes:

> (*a*) To take as from the present date all measures in its power to reduce the deficit: these measures are to include, in particular, increases in the railway, postal and telegraphic rates, and in the sale prices of the products of the monopolies.
>
> (*b*) To submit immediately to the Austrian Parliament the draft law contemplated in paragraph 3, which will give for two years to the Government now in office, or to any succeeding Government, full authority to take all measures

[1] "Reply of Financial Committee to Questions referred to it by Austrian Committee of Council." September 1922 (see Chapter VII (I)).

which in its opinion may be necessary to assure the re-establishment of budgetary equilibrium at the end of that period.

(*c*) To prepare immediately a programme of reform, to set in motion the necessary legislative action and to apply the first measures of execution contenplated by the programme between the present date and January 1st, 1923.

9. In the event of any difference as to the interpretation of this Protocol the parties will accept the opinion of the Council of the League of Nations.

The present Protocol shall be communicated to those States which have signed Protocol II signed at Geneva on October 4th, 1922.

In faith whereof the undersigned, duly authorised for this purpose, has signed the present Protocol.

Done at Geneva in a single copy, which shall be deposited with the Secretariat of the League of Nations, and shall be registered by it without delay, the fourth day of October nineteen hundred and twenty-two.

(Signed) SEIPEL.

V.

LIBERATION OF THE REVENUES PLEDGED AS SECURITIES FOR THE AUSTRIAN RECONSTRUCTION LOAN.

A. REPARATION CHARGE.

Decision No. 2400 of the Reparation Commission.

(*February 20th*, 1923.)

The Reparation Commission, considering the present state of Austrian finances,

And taking note of the scheme approved by the Council of the League of Nations in Geneva on October 4th, 1922,

Hereby, in exercise of the power conferred by Article 197 of the Treaty of St. Germain to make exceptions to the first charge created by that Treaty on the assets and revenues of Austria for the cost of reparation and other costs,

Excepts from the charge created by the said Article 197 for the cost of reparation by Austria and any other costs arising under the Treaty of St. Germain or any Treaties or Agreements supplementary thereto or any Arrangements concluded by Austria with the Allied and Associated Powers during the Armistice signed on November 4th, 1918, and from any and every other charge to which the powers of the Commission extend:

1. The revenues of the customs, salt mines, forests and State domain already excepted for a period of twenty years for the purpose of the Bank of Issue (Reparation Commission Decision 2087 of August 4th, 1922);
2. The gross receipts from the tobacco monopoly;
3. Such of the other revenues and receipts of the Austrian Government as may from time to time be required by the Committee of Control under paragraph 11 of Protocol II signed at Geneva on October 3rd, 1922, for the service of the long-term

loan provided for in the said scheme approved on October 4th, 1922, by the Council of the League of Nations.

And so that this exception shall take effect for a period of twenty years from the date of this decision,

And so that the Commission agrees that the said long-term loan and every part thereof and any claim by the guarantors in respect thereof shall, after the said period of twenty years until completely discharged, have priority in respect of the revenues and receipts above mentioned over the said first charge for the cost of reparations and other costs under Article 197 of the said Treaty.

And so also that the Reparation Commission makes this exception and waiver of priority upon the express condition that no portion of the revenues and receipts so excepted be applied to any other purpose than the service of the loan referred to in Article 1 of the said Protocol II of October 3rd, 1922,

Provided always that this exception shall apply in the same manner to the bonds to be issued by Austria in conformity with Annex B to the said Protocol II for the payment of that part of the Czechoslovak credit which is not included in the 650 millions.

B. RELIEF CREDIT CHARGE.

1. *Letter dated February* 21*st*, 1923, *from the Secretary-General of the Reparation Commission to the Representatives of Denmark, France, Great Britain, Italy, Netherlands, Norway, Sweden, Switzerland and United States of America.*

I am instructed by the Reparation Commission to transmit for the information of your Government as a holder of Austrian Relief Bonds the text of a decision taken on February 20th excepting for a period certain Austrian revenues and receipts from the charge for reparation and other payments arising under the Treaty of St. Germain.

It will be observed that the release is made with a view to the promotion of the scheme for assistance to Austria in her work of economic and financial reconstruction approved in October last by the Council of the League of Nations in Geneva, and that the revenues and receipts excepted can be devoted only to

the service of the loan under Article I of Protocol II of October 3rd, 1922.

The decision does not of course in any way prejudice the security for the Relief Bonds, but it will be obvious that the scheme of the League of Nations cannot be carried into effect unless the holders of Relief Bonds are prepared to take action in relation to their security similar to that adopted by the Reparation Commission.

I am therefore to ask whether your Government is prepared:

1. To extend the period for the repayment of the Relief Bonds which it holds for a period of twenty years from January 1st, 1923, without, however, prejudicing the priority over reparations to which Relief Bonds are entitled;

2. In respect of the revenues and receipts referred to in the decision of the Reparation Commission, to postpone the priority in favour of Relief Bonds to the contemplated long-term loan and to any claims of guarantors arising thereout, in the same manner as the Reparation Commission has postponed the priority for reparations.

It is perhaps unnecessary for me to emphasise the urgency for immediate action and the absolute necessity of the co-operation of the Governments holding Relief Bonds if the League of Nations scheme for Austria is to enjoy a reasonable prospect of success...

2. *Letter dated June 7th, 1923, from the Secretary-General of the Reparation Commission to the Austrian Minister in Paris.*

Following upon the decision reached by the Reparation Commission on February 20th to suspend the lien on certain Austrian assets, in order that they may serve as a guarantee for a long-term loan to be issued in conformity with the Protocols concerning the Reconstruction of Austria, signed at Geneva, October 4th, 1922,

I have the honour to inform Your Excellency that all the Governments concerned have signified to the Commission their acceptance of the latter's proposal to extend this decision to the lien which they possess as holders of Relief Bonds, and that consequently the above-mentioned extension is now regarded by the Commission as definitive. The Governments concerned have been informed.

VI.

GENERAL BOND FOR THE AUSTRIAN GOVERNMENT GUARANTEED LOAN 1923-1943.

Issue of long-term bonds of various denominations and in various currencies by the Government of the Federal Republic of Austria in pursuance of the resolution and protocols scheduled hereto and of the Federal Constitution and Reconstruction Laws of the Austrian Republic dated respectively the 26th and 27th days of November One thousand nine hundred and twenty-two to secure sums producing in the aggregate an effective sum of Six hundred and fifty million gold kronen or their equivalent plus the expenses of issue of negotiation and of delivery.

General Bond.

Whereas these presents are for the purposes of carrying into effect the resolution and protocols specified in the First Schedule hereto.

And whereas the Government of the Federal Republic of Austria has determined to contract the said long-term loan in the said scheduled resolution and protocols referred to in the manner and upon the terms and conditions hereinafter contained.

And whereas these presents have been submitted to and approved by the **Committee of Control**.

And whereas such of the signatories to these presents as purport to sign for and on behalf of any Government have been duly authorised by such respective Government so to do.

Now these presents witness and declare as follows:

1. The loan to be constituted and secured in pursuance of these presents shall be called and known as the "Austrian Government Guaranteed Loan 1923–1943".

2. These presents shall be printed in the English German and French languages and all definitive bonds to be issued by the Government of the Federal Republic of Austria (hereinafter called "the Austrian Government") in respect of the said loan shall be printed in the English and German languages and the language of the country in which such respective bonds shall be issued. In the event of any divergence between the texts the English text shall prevail both in respect of these presents and the said Bonds.

3. The total authorised amount of the loan is such a nominal amount as shall be necessary to yield an effective sum of Six hundred and fifty million gold kronen exclusive of the expenses of issue of negotiation and delivery which expenses shall be added to and raised in the same manner as the said nominal amount aforesaid and for the purposes of these presents such expenses shall be included in the total authorised amount of the said loan.

The Austrian Government shall be at liberty at any time and from time to time to raise such portion or portions of the said authorised amount of the loan as the Austrian Government with the previous sanction of the COMMISSIONER-GENERAL and the **Committee of Control** shall think fit.

Such issue or issues shall be made in such country or countries and (except in respect of bonds issued in Austria) in the currencies of the respective countries and secured by definitive bonds of the Austrian Government issued at such price or prices and of such denominations and generally on such terms as the Austrian Government with such sanction as aforesaid shall from time to time decide.

All such bonds shall carry interest at such a rate per centum per annum as shall be specified therein and such interest shall be payable at such bank or other financial institution or institutions (as shall be named by the *Trustees*) situate in and except in respect of bonds issued in Austria in the currency of the country where such bonds shall respectively be issued by half-yearly

instalments on the first day of June and the first day of December in every year.

All definitive bonds issued by the Austrian Government in respect of the loan shall rank *pari passu* irrespective of date or place of issue or otherwise.

4. Prior to or simultaneously with the issue of any portion of the said loan the Austrian Government shall give to the *Trustees* an acknowledgment in writing that the Austrian Government is indebted to the *Trustees* to an amount equivalent to and in the same currency as the portion of the said loan about to be issued carrying interest at the rate to be specified in the bonds of such issue payable by half-yearly instalments on the said first day of June and first day of December in every year

And the Austrian Government hereby covenants with the *Trustees* that as and when the principal moneys secured by the definitive bonds to be issued by the Austrian Government in respect of the said loan or any part thereof ought to be redeemed or paid off the Austrian Government will pay to the bondholders or those whose bonds ought to be redeemed or paid off the full nominal amount of the same at such place or places in such manner as the *Trustees* shall direct and will in the meantime pay to the bondholders interest on the principal moneys secured by their bonds and such interest shall be paid by half-yearly instalments on the said first day of June and first day of December in every year at such place or places and in such manner as the *Trustees* shall direct.

5. The whole of the said loan shall be redeemed within twenty years from the first day of June One thousand nine hundred and twenty-three and the following provisions as to redemption shall have effect:

(i) Each particular issue (that is to say each issue at any time made in a particular currency to raise any portion of the total authorised amount) shall be redeemed by a cumulative sinking fund in manner following:

(ii) For the purposes of this clause the period of the loan shall be deemed to be divided into twenty financial years expiring on the thirty-first day of May in each calendar year the first financial year being the period from the date of these presents to the thirty-first day of May One thousand nine hundred and twenty-four.

(iii) Not later than the fifteenth day of April in any financial year in which any particular issue of the loan shall have been made and not later than the fifteenth day of April in every subsequent financial year whilst any bonds of such issue are outstanding ending with the financial year expiring on the thirty-first day of May One thousand nine hundred and forty-three

The Austrian Government shall pay to the *Trustees* or as they shall direct in respect of such particular issue in the currency of such issue and at any place or places in the country of such issue the proper proportion of such a fixed annual sum as shall be calculated after allowing for the annual interest on the bonds of the particular issue for the time being outstanding to redeem by annual instalments increasing in proportion to the decrease of the amount required for interest the nominal capital of the whole of the bonds of the said particular issue within the said period of twenty years.

(iv) The amounts so payable in each such country as aforesaid in respect of each such particular issue in the year One thousand nine hundred and twenty-four and each succeeding year during the said period of twenty years shall (subject as hereinafter provided) be applied by or under the directions of the *Trustees* in the redemption in manner hereinafter mentioned of such number of the bonds of each such particular issue made in such country respectively and outstanding as the amount so received in respect of each such particular issue will suffice to redeem; the bonds of each such particular issue to be redeemed to be selected by drawings.

(v) Such drawings shall be made in any year in which drawings are necessary during the month of October next after the end of each financial year in such manner and by and in the presence of such person or persons and at such time and subject to such regulations as the *Trustees* shall deem expedient.

(vi) Forthwith after any such drawing shall have been effected the *Trustees* shall take or cause to be taken such steps as they shall deem convenient by advertisement in newspapers or otherwise for notifying the bondholders whose bonds shall have been drawn for redemption and for naming

a time and place and generally for providing for the presentation for payment and cancellation of the bonds complete with current and unpaid interest coupons against payment of the principal money thereby secured and accrued interest thereon.

The *Trustees* may also where necessary publish in each year a list of the numbers of the bonds drawn in preceding years which have not been presented for payment.

No drawn bond shall continue to carry interest after the due date for payment of the principal moneys. All drawn bonds shall be due for payment of principal on the first day of December in the year in which they are drawn.

(vii) Provided that the Austrian Government shall be entitled during any financial year prior to the fifteenth day of April in such financial year to purchase bonds at less than par plus accrued interest.

To the extent that on or before such fifteenth day of April the Austrian Government proves to the satisfaction of the *Trustees* such purchases the amount payable on the fifteenth day of April under the preceding provisions of this clause for the redemption of the bonds of any particular issue shall be reduced by the actual purchase price paid by the Austrian Government for the purchase of bonds of such particular issue and any necessary adjustments shall be made accordingly

And the Austrian Government shall with the consent of the *Trustees* and provided and whilst there shall be no existing default by such Government in any of its obligations hereunder be entitled to require that the whole or any portion of the moneys in the hands or under the control of the *Trustees* and applicable in accordance with the provisions of these presents to the redemption service for the financial year of any particular issue be applied during any such financial year and/or during the subsequent period ending in and with the following thirtieth day of September in or towards the purchase of bonds of such particular issue at less than par plus accrued interest and the *Trustees* may accordingly purchase such bonds or cause or allow the same to be purchased and the *Trustees* shall make all adjustments necessary to give effect to the foregoing provisions.

(viii) In the event of there being any default either partial or total by the Austrian Government in providing the necessary moneys for the service of the redemption of the bonds of any particular issue in accordance with the provisions of these presents then during the continuance of such default up to and including the thirtieth day of September following the financial year in respect of which default shall be made

The *Trustees* may (and the *Trustees* shall if so required by the **Committee of Control**) utilise or expend any moneys in their hands or under their control and so applicable as in the last preceding sub-clause mentioned in purchasing or causing or allowing to be purchased any bonds of such particular issue at less than par plus accrued interest but this provision shall not in any way operate to relieve either the Austrian Government or any of the Guaranteeing Governments from the due fulfilment of their or any of their obligations under any of the other provisions of these presents.

(ix) All bonds so purchased or drawn for redemption under the preceding provisions shall be cancelled in manner required by the *Trustees* and lodged with them or dealt with as they may direct and shall not under any circumstances be re-issued. A list of the bonds so cancelled shall be furnished by the *Trustees* to the Finance Ministries of the Guaranteeing Governments.

(x) All dates and periods mentioned or referred to in these presents or any bond or security issued hereunder or in connection herewith shall be computed or calculated according to the Gregorian Calendar or New Style.

6. The Austrian Government shall with the consent of the *Trustees* and the **Committee of Control** be entitled at any time after the first day of June One thousand nine hundred and thirty-four and from time to time on giving not less than six calendar months' previous notice to expire on one of the half-yearly days for payment of interest to redeem the whole of the bonds of any particular issue made in any country and outstanding.

Any notice to redeem as aforesaid shall be given by public advertisement in such newspapers of the country concerned as the *Trustees* shall approve and the redemption generally shall (subject as is by this clause specifically provided for) be effected in accordance with such regulations and provisions as the *Trustees*

shall make in connection with any such redemption or (in the event of the failure of the *Trustees* to make any such specific regulations and provisions) then in such manner as the *Trustees* may from time to time approve.

On the expiration of the notice the Austrian Government shall in accordance with the said regulations and provisions or as the case may be with the approval of the *Trustees* pay in the currency of the issue concerned the full nominal amount of the bonds so to be redeemed together with interest up to the expiration of the notice against presentation for payment and for cancellation of the bonds so to be redeemed complete with current and unpaid interest coupons Provided always that nothing in this clause contained shall relieve the Austrian Government from the due fulfilment of its obligations under any of the other provisions of these presents.

7. The amounts required for the service of the loan in accordance with the foregoing provisions of these presents that is to say the amounts required for paying or providing for interest and redemption shall be and remain a first charge on the gross receipts of the customs and of the tobacco monopoly of the Austrian Government and also upon such other specific assets which may be made additional security for the service of the loan in accordance with the provisions of Article 11 of Protocol Number 2 and/or Article 5 of Protocol Number 3.

And the Austrian Government and the COMMISSIONER-GENERAL hereby acknowledge that such gross receipts shall stand charged accordingly and the Government hereby covenants with the *Trustees* that the Government will not without the prior consent of the *Trustees* create or attempt to create any mortgage or charge and will not without the prior consent of the COMMISSIONER-GENERAL do or attempt to do any other act or thing which will in any way affect the charge hereby created or agreed to be created.

Provided nevertheless that the Austrian Government shall be entitled at any time hereafter in accordance with the provisions of Annex "B" (Clause 2) to Protocol Number 2 to secure the repayment of a sum in Czechoslovak crowns not exceeding the present value of Thirteen million four hundred and eighty-seven thousand three hundred and forty-three gold crowns and interest thereon to the Czechoslovak Government by a charge on the said

gross receipts of the Customs and of the tobacco monopoly and such other specific assets as aforesaid ranking *pari passu* with the charge hereby created

And provided further that the Austrian Government shall be entitled on or at any time or times after the first day of June One thousand nine hundred and thirty-three to secure by like charges on the said gross receipts of the Customs and tobacco monopoly and other specific assets ranking *pari passu* with the charges created by these presents and in respect of the repayment to the Czechoslovak Government last hereinbefore mentioned the repayment of all loans (with the interest thereof) which the Austrian Government may raise for the purposes of enabling them to pay or to provide for the payment of any principal moneys due in respect of the balance outstanding immediately prior to redemption of any particular issue redeemed by the Austrian Government under the provisions of Clause 6 hereof.

The Austrian Government further covenants with the *Trustees* that the Austrian Government will at any time and from time to time at its own expense execute and do or procure to be executed enacted or done all such assurances acts matters or things as the *Trustees* with the previous consent of the COMMISSIONER-GENERAL shall require for giving to the *Trustees* on behalf of the bondholders the full benefit of the said charge hereby created or agreed to be created and the amplest means for enforcing the same both as regards the gross receipts of the customs and of the tobacco monopoly and as regards such other specific assets as aforesaid.

8. With a view to carrying into effect the said charge and until the *Trustees* shall with the previous consent of the COMMISSIONER-GENERAL otherwise require the yield for the time being during the currency of the loan of the gross revenues from the customs and tobacco monopoly of the Austrian Government and such other specific assets as aforesaid shall be paid into the special account referred to in the said Article 5 of Protocol Number 3.

There shall be paid out of this account to the *Trustees* or as they may direct on the first of each calendar month such a sum as shall be the equivalent of at least one-twelfth of the amount necessary to meet the service of the loan for one year in accordance with the foregoing provisions of these presents and to enable all charges commissions and other payments to be made by the

Austrian Government in connection with the said loan for such year to be discharged.

The amount to be paid out of the said account on the first day of each month as aforesaid shall be apportioned between the particular issues of the bonds made in the various countries and in proportion to the respective aggregate amount of the bonds of each such particular issue respectively and the amount apportioned to each such particular issue shall be paid in the currency of such issue to the *Trustees* or as they shall direct at such place or places within the country of issue and otherwise as the *Trustees* shall require.

The COMMISSIONER-GENERAL shall to the extent to which the said gross revenues for the time being under his control shall permit do all things requisite for carrying into effect the provisions of this clause.

9. Nothing in the last preceding clause hereof shall relieve the Austrian Government from its obligations under Sub-clause (iii) of Clause 5 hereof.

Moreover not later than forty-five days prior to the due date for the payment of any instalment of interest the Austrian Government shall pay to the *Trustees* or as they shall direct the full amount of such instalment of interest.

Each such instalment shall be payable in the requisite proportions in the various currencies of the respective bonds issued and outstanding and the amount required for the payment of the instalment of interest on the bonds issued and outstanding shall be payable in the currency of each issue to the *Trustees* or as they shall direct at such place or places within the country of issue and otherwise as the *Trustees* shall require

Provided nevertheless that in making the payments required by Sub-clause (iii) of Clause 5 hereof for redemption moneys and by this clause for interest the Austrian Government shall be entitled to take credit for so much of the relative monthly instalments payable under the last preceding clause hereof as shall have been actually paid in respect of any such annual redemption moneys or instalment of interest respectively prior to the date on which such annual redemption moneys under Sub-clause (iii) of Clause 5 hereof or such instalment of interest under this clause shall become payable.

10. The Austrian Government shall out of the first proceeds of each particular issue made in respect of the loan

(Subject only to the satisfaction out of such proceeds if and so far as the same shall be bound to be so applied of the outstanding short-term liabilities of the Austrian Republic issued from November One thousand nine hundred and twenty-two to March One thousand nine hundred and twenty-three in anticipation of this long-term loan but in priority to the carrying out of the provisions of Annex "B" to Protocol Number 2)

Or to the extent to which such proceeds shall be deficient then out of other moneys within four weeks after such particular issue shall have been made pay to the *Trustees* or as they may direct a sum in the currency of issue equal to the full amount required in accordance with the foregoing provisions hereof for one-half of one complete year's service of the definitive bonds comprised in such issue.

Such sum shall be retained by or under the directions of the *Trustees* and shall be applicable at their discretion to make good at any time or from time to time any default or deficiency on the part of the Austrian Government in providing in whole or in part in accordance with the foregoing provisions of these presents the sums required for the service of the bonds of such issue.

Nothing in this clause shall be construed so as to relieve the Austrian Government from any of its obligations under the foregoing provisions of these presents or to nullify any default by the Austrian Government in respect of such obligations.

In the event however of the Austrian Government making any default in any such obligations and the *Trustees* in their discretion deciding to apply and applying the whole or any part of any such sum as aforesaid in or towards making good any such default in respect of the bonds of such issue the Austrian Government shall forthwith on demand pay to the *Trustees* or as they shall direct a sum equal to the sum so applied by the *Trustees* and in the same currency

And such sum shall be held and be applicable in the same manner as the original sum and so often as the same or any part shall be applied as aforesaid the Austrian Government shall be bound to recoup the same

To the intent that there shall always be at the disposal of the *Trustees* for the purposes aforesaid a sum equal to the full amount

required for one-half of one complete year's service of the bonds of such issue

But so nevertheless that during the last year of the loan in which any bonds of such issue shall be outstanding the *Trustees* shall be entitled if they so think fit to allow the Austrian Government credit for the whole or any part of the sum standing at the disposal of the *Trustees* under this clause in respect of the payments required of the Austrian Government for the service of the loan for such last year under the foregoing provisions of these presents and to release the Government accordingly from its full obligations under such provisions.

In the event of the Austrian Government redeeming the whole of any particular issue under the provisions of Clause 6 hereof the *Trustees* shall not if any other bonds are still outstanding hand over to the Austrian Government any moneys in their hands or at their disposal provided under this clause in respect of the redeemed issue but shall retain and hold the same (in such a manner as the *Trustees* think fit) as a general reserve fund to make good as and when the *Trustees* shall think fit any default in respect of any other issue or issues.

11. Any moneys for the time being in the hands of or under the control of the *Trustees* under the foregoing provisions of these presents and not immediately required to be applied in the purchase or redemption of the bonds payment of interest making good a default or otherwise as hereinbefore provided

Shall continue to be the moneys of the Austrian Government and may be placed on deposit with such bank or banks and at such rate or varying rates of interest and generally on such terms as the *Trustees* may in their sole discretion agree or the *Trustees* may purchase with the same and hold short-term bonds or securities of the Governments of the countries in which issues of this loan have been made

And all interest or other income when actually received by the *Trustees* shall be added to the moneys so in the hands of or under the control of the *Trustees* and shall operate to relieve or release the Austrian Government from its obligations under the foregoing provisions of these presents.

12. The principal and interest of all the bonds issued in respect of the loan shall be paid without deduction for all present or future Austrian taxes stamp or other duties dues or charges

and neither shall this general bond nor any other document or letter bearing upon the said loan be subject to any Austrian registration fees stamp duties or other duties or deductions of any nature present or future.

The principal and interest of the bonds will be paid in time of war as well as of peace and no matter whether the holders of the bonds are subjects of a State friendly or hostile to the Austrian State.

The Austrian Government will in no case attach or sequestrate these bonds or subject the principal or interest thereof to any contribution or other deduction or any mortgage charge or lien.

13. The **Committee of Control** and each of the Governments referred to in the first column of the Second Schedule hereto by their respective representatives on the **Committee of Control** hereby acknowledge that the service of the loan is guaranteed by the Governments referred to in the said first column to the Second Schedule hereto in the proportions and to the extent in respect of the total authorised amount of the loan therein set out in the second column of the said Schedule opposite the name of each such Government.

Inasmuch as a proportion of the service of the total authorised amount of the loan remains unguaranteed the guarantees given by the Governments referred to in the first column of the Second Schedule hereto shall be readjusted *inter se* in the proportions specified in the third column to the said Schedule so as to aggregate guarantees to the extent of one hundred per centum of the service of a proportionate part of the loan and so that the liability of each such Government under the readjusted guarantee in respect of the service of such proportionate part of the loan shall not exceed what would have been its liability under its guarantee in respect of the proportion of the service of the total authorised amount of the loan specified opposite its name in the second column of the said Schedule.

And the first and other succeeding particular issues of the loan up to an amount equivalent to the proportionate part the service of which shall so be guaranteed to the extent of one hundred per centum shall be made with the benefit of the guarantees of the several Governments in the proportions so readjusted as aforesaid and specified in the third column of the said Schedule.

And as regards the remainder of the total authorised amount of the loan the Austrian Government may subject to the provisions

of these presents arrange to issue the same either in whole or part under the guarantee or guarantees of any Government or Governments which the Austrian Government may subsequently be able to obtain or under no such guarantee but in the event of the whole or any part of such remainder being guaranteed by any Government or Governments any such guarantee or guarantees shall confer *pari passu* the same rights and privileges and be subject to the same obligations as are provided in respect of the guarantees given by the Governments guaranteeing the prior portion of the loan.

The method of providing the said several guarantees shall be effected as follows:

> The **Committee of Control** shall be responsible for notifying to each of the guaranteeing Governments as soon and as often as it receives from the Austrian Government notification of any contemplated issue sanctioned by the **Committee of Control** the total amount of such contemplated and sanctioned issue and the country or countries in which such issue is to be made and the amount to be issued in such country or countries respectively and the approximate date of issue.
>
> Within ten days of the receipt by the said Governments of such notification and in any event not later than seven days prior to the date named as the appproximate date of such an issue each of the said guaranteeing Governments shall deposit in the names of the *Trustees* with the National Bank of Switzerland bonds acknowledging liability by such Government to the extent of the quota to be guaranteed by such Government of the amount required in accordance with the foregoing provisions of these presents for the service of the issue.
>
> Such bonds shall provide for the amounts payable for instalments of interest and redemption moneys to become payable thirty days prior to the respective dates fixed by these presents for payments of instalments of interest and redemption moneys in respect of the definitive bonds to be issued by the Austrian Government.
>
> The bonds of the guaranteeing Governments shall be in the currency in which the sanctioned issue is to be made by

the Austrian Government and in the event of issues being made in more than one currency such bonds shall be in the currencies of such respective sanctioned issues in proportion to the amounts to be issued in such currencies respectively.

Such bonds shall have attached to them the requisite number of coupons in respect of half-yearly instalments of interest and in respect of the annual sums payable for redemption and each such guaranteeing Government shall on presentment of any such coupon by the *Trustees* forthwith pay the same and notwithstanding that the holders of any of the bonds to be issued by the Austrian Government in respect of which default is made are subjects of a country or that the country or countries in which any issue in respect of which default is made may be at war or hostile to any such guaranteeing Government.

Instead of bonds Treasury documents may be deposited and accompanied in lieu of coupons by drafts or orders for payment of instalments of interest and redemption moneys. Such Treasury documents and drafts shall in all respects be equivalent to and be dealt with in the same manner as bonds and coupons as provided in this and the next succeeding clause.

14. Without prejudice to the provisions of the last preceding clause the *Trustees* shall not present for payment any coupon of the bonds of the guaranteeing Government or otherwise enforce any guarantee of such Government unless and until there shall have been a default by the Austrian Government for fifteen days or more in providing the whole or some part of the moneys payable under Clause 5 Sub-clause (iii) and Clause 9 hereof for redemption moneys and/or interest and this only after the *Trustees* shall be satisfied that all moneys in their hands or at their disposal under these presents and available for meeting such default including the moneys in their hands or at their disposal under Clause 10 hereof shall be insufficient to meet such default.

In the event of any such default on the part of the Austrian Government for fifteen days as aforesaid and the *Trustees* not being satisfied that they have sufficient moneys available to meet such default the *Trustees* shall immediately intimate to the said several guaranteeing Governments the nature and extent

of such default and shall at the same time call upon each such guaranteeing Government to pay to the *Trustees* or as they shall direct against the surrender to them respectively of the relative coupons such proportion of the amount which the Austrian Government has failed to pay or provide as aforesaid and which under their several guarantees such guaranteeing Governments are liable to make good.

Upon the fulfilment by the Austrian Government of its obligations in respect of any instalment of interest or redemption moneys under the foregoing provisions of these presents the *Trustees* shall forthwith procure and return for cancellation to the guaranteeing Governments their respective relative coupons.

15. In the event of the said guaranteeing Governments being called upon to pay and paying any sum or sums under their said guarantees such sum or sums shall carry interest from the respective dates of payment of the same until repaid at such a rate per centum per annum as shall be one-half per centum higher than the rate of interest payable on the bonds upon which default has been made and such sums together with interest costs charges commission losses and expenses incurred in connection therewith shall in the meantime rank as a charge on the premises the subject matter of the charges referred to in Clause 7 hereof and subject only to such charges.

And the COMMISSIONER-GENERAL and the *Trustees* shall subject to the prior rights of the persons entitled to the benefit of such charges and until otherwise directed by the **Committee of Control** hold the benefit of the charge by Clause 7 hereof created or agreed to be created for securing the bonds in respect of which default shall have been made and all specific securities created in pursuance thereof and all rights and remedies for enlarging protecting and enforcing the same for the purpose of securing the due payment to the guaranteeing Governments of the sums interest costs charges commission losses and expenses above mentioned.

16. As often as any default by the Austrian Government shall be made in whole or in part in carrying out any of the provisions of Clauses 5, 9 and 10 hereof the *Trustees* shall forthwith if the premises hereby charged or agreed to be charged shall not be under the direct control of the *Trustees* intimate the nature and extent of the default to the COMMISSIONER-GENERAL and the **Committee of Control**

And the said COMMISSIONER-GENERAL acting by virtue of the powers conferred upon him by Protocol 3 shall if requested by the *Trustees* or the *Trustees* themselves if they shall be in direct control of the said premises

Shall forthwith take all necessary steps to retain collect or otherwise provide out of the said premises (including such other assets as may be brought into charge under the foregoing provisions of these presents and Clause 11 of Protocol 2 or Clause 5 of Protocol Number 3) sufficient funds to remedy and make good any such default as aforesaid and to provide for the due and punctual carrying out in the future of the provisions of Clauses 5, 9 and 10 hereof without any further default

17. The definitive bonds to be issued by the Austrian Government shall be signed on behalf of such Government by the Austrian Federal Minister of Finance for the time being or such other person or persons specifically and duly authorised in writing so to do by the said Austrian Minister of Finance.

The bonds shall also be countersigned either by the President of the Austrian Court of Accounts or on his behalf by any person or persons specifically and duly authorised by him in writing so to do.

18. In case any of the said bonds shall at any time become mutilated or destroyed or lost a new bond of like amount tenor and date bearing the same number will be issued by the Austrian Government in exchange for and upon cancellation of the bond so mutilated and its coupons or in lieu of the bond so destroyed or lost and its coupons but in the case of destroyed or lost bonds only upon receipt by the *Trustees* and a representative of the Austrian Government of evidence satisfactory to them that such bonds were destroyed or lost and upon receipt also of a satisfactory indemnity.

19. The Chairman for the time being of the Financial Committee of the Council of the League of Nations shall be the first *Trustee* of these presents but this appointment shall not extend beyond the expiration of the first six months from the date of these presents.

On or before such date three *Trustees* shall be appointed by a resolution of the Council of the League of Nations. The expression " the *Trustees* " where used in these presents shall where the context so requires or admits include the said Chairman or other the *Trustees* or *Trustee* for the time being of these presents.

20. So far as practicable the number of *Trustees* of these presents shall be kept up to three. The Council of the League of Nations may at any time by resolution remove any *Trustee*. A *Trustee* may at any time resign on giving one month's previous notice in writing to the Council of the League of Nations.

In the event of the death or resignation or removal of a *Trustee* or a *Trustee* becoming in the opinion of the Council of the League of Nations unfit or incapable of acting in the trusts hereof or in the event of a vacancy occurring for any other reason in the office of *Trustee* the Council of the League of Nations may by resolution appoint any other person or persons to be a *Trustee* or *Trustees* of these presents in place of the *Trustee* or *Trustees* so dying resigning removed becoming unfit or incapable of acting or otherwise ceasing to be a *Trustee* or *Trustees*.

If the Council of the League of Nations so thinks fit the Council of the League of Nations may at any time or from time to time appoint any additional *Trustee* or *Trustees* of these presents.

The continuing *Trustees* may act notwithstanding any vacancy in their body and notwithstanding that their number be for the time being reduced below three. Whenever there shall be more than two *Trustees* hereof the majority of such *Trustees* shall be competent to execute and exercise all the trusts powers and discretions hereby vested in the *Trustees* generally.

A body corporate may at any time be appointed a *Trustee* of these presents.

21. The Austrian Government shall in each and every year during the continuance of the loan pay to each of the *Trustees* for the time being of these presents a sum at the rate of one hundred and five pounds sterling per annum or such other rate as the Austrian Government with the consent of the Council of the League of Nations may agree with the *Trustees* by equal half-yearly payments on the first day of June and the first day of December in every year in addition to all travelling and other costs charges and expenses which he may incur in relation to these presents.

22. No *Trustee* of these presents shall be liable or responsible for anything whatsoever except a breach of trust knowingly and intentionally committed by him.

23. In these presents

(*a*) The term "COMMISSIONER-GENERAL" shall be deemed to include the person for the time being occupying the position of

COMMISSIONER-GENERAL in pursuance of the provisions of Article 4 of Protocol Number 3 or the person or persons for the time being authorised to exercise the special control of the assets assigned for the service of the loan, and

(*b*) The term "**Committee of Control**" shall be deemed to include the Committee set up by Protocol 2 or any body which in conformity with the Protocols may succeed to its functions, and

(*c*) The term " bonds " shall in the case of the definitive bonds to be issued by the Austrian Government include both bonds to bearer and bonds inscribed or registered. The form of such bonds and also any regulations and machinery for registering or inscribing any such bonds shall be such as the *Trustees* approve or prescribe.

The FIRST SCHEDULE above referred to:

1922 October 4th. — Resolution adopted on this date by the Council of the League of Nations.

1922 October 4th. — Protocol No. 1 between the British, French, Italian and Czechoslovak Governments of the one part and the Austrian Government of the other part.

1922 October 4th. — Protocol No. 2 between the British, French, Italian and Czechoslovak Governments and Annexes thereto.

1922 October 4th. — Protocol No. 3 by the Austrian Government.

The SECOND SCHEDULE above referred to:

Name of Guaranteeing State	Percentage of Service of total authorised amount of loan guaranteed	Percentage of Service of proportion of loan fully guaranteed[1]
The United Kingdom	21.8	24.5
France	21.8	24.5
Czechoslovakia	21.8	24.5
Italy	18.6	20.5
Belgium	2.	2.
Sweden	2.	2.
Denmark	1.	1.
The Netherlands	1.	1.

[1] The proportion thus fully guaranteed is an amount sufficient to produce Five hundred and eighty-five million Austrian gold crowns after providing for expenses of issue of negotiation and of delivery.

(Signed) Eric DRUMMOND,
Secretary-General, League of Nations

Done at Geneva in English German and French this thirty-first day of May 1923.

Approved in accordance with the Minutes of the Meetings of the **Committee of Control** held from the 14th to the 16th April 1923:

(Signed) M. PANTALEONI.
For O. E. NIEMEYER.
H. STRAKOSCH
Pour M. SEYDOUX.
Ed. DE FELCOURT.
ROOS.
Alb. E. JANSSEN.
PATIJN.
C. BOTELLA.
Paul DINICHERT.
ALSTRÖMER,
Swedish Minister in Berne.

On behalf of the Danish Government
as Delegate:

(Signed) P. O. A. ANDERSEN,
Director of the
National Debt.

Finantsministeriet.

ZIMMERMAN

Dr. KIENBÖCK

VII.

REPORTS OF THE FINANCIAL COMMITTEE AND RESOLUTIONS OF THE COUNCIL, WITH RELEVANT PAPERS.

1.

SEPTEMBER-OCTOBER 1922.

A. REPLY OF THE FINANCIAL COMMITTEE TO QUESTIONS REFERRED BY THE AUSTRIAN COMMITTEE OF THE COUNCIL.

September 1922.

The Financial Committee has the honour to report that it has studied the questions referred to it by the Austrian Committee, in consultation with the Austrian representatives, and is now able to submit the following replies, which represent the unanimous opinion of the Committee.

Question 1[1].

The Financial Committee is requested to consider, in consultation with the Austrian representatives, what measures are required and are practicable to secure budget equilibrium, and after what period it considers that, with these measures, the result desired should be obtained.

ANSWER.

The answer to this question cannot be given with certainty, for the period depends essentially upon the resolution and the

[1] The replies to Questions 1, 2, 3 and 4 give only the summarised conclusions of the Committee and not the detailed reports on which they are based.

authority of the Austrian Government in carrying out the drastic reforms recommended. But if this vital condition is realised, the Committee considers that it should be possible to attain budget equilibrium *in two years,* and it is on this basis that the further recommendations are made.

The main measures required for this purpose are:

(a) *Reform of State Industrial Enterprises.*

State industrial enterprises should be either suppressed if merely useless, or run by the State upon a commercial, *i.e.*, paying, basis, or, in suitable cases, transferred to private management by concessions. The abolition of loss under these heads would involve a total annual saving of about 170 million gold crowns. The most important instance is that of the railways, which at present involve a deficit of 124 million gold crowns. The reason is partly the excessive number of employees, which should be reduced, and partly the low tariffs. While wages follow the cost-of-living index, the tariffs have only been raised to about one-fifth of what they would be on this basis. Under the Treaty, these low tariffs apply also to transit trade, and, therefore, benefit the foreigner. The Committee considers that the railways should cease to involve loss within the period of two years, and, in view of the important transit trade, should ultimately be a source of profit.

(b) *Reduction of Officials.*

Vienna, as the capital of a country of 6 millions, has more State employees than when she was the capital of an Empire of over 50 millions. The Committee considers an effective reduction of gold expenses by at least one-third should be effected within the transition period.

In addition, the subventions to the local administrations to assist them in paying their own officials on the basis of the cost-of-living index should be suppressed.

These reforms would give an annual saving of 130 million gold crowns.

Question 2.

The Financial Committee is requested to consider what deficit, in terms of gold, must be contemplated as necessary during the intervening period.

ANSWER.

The Committee estimates the total deficit during the period of two years as 520 million gold crowns, to which must be added the sum required to reimburse certain advances made this year, raising the total to 650 million gold crowns. To enable the reforms to be effected, this sum must be available from credits.

This estimate is based upon the following " normal budget ", which allows for the above reforms:

Expenditure (normal budget)	Millions of gold crowns
Public debt	52
Pensions	42
Civil Service	100
Army	20
Social assistance	23
	237

It should be possible to obtain 237 million gold crowns in taxation by the end of two years. This amounts to only 40 gold crowns per head and should be ultimately capable of increase; but the difficulties which now result from low assessment during a period of depreciation and those of a different kind which follow immediately upon a stabilisation make the full attainment of this figure at an earlier date improbable.

Question 3.

What securities can Austria offer for private credits and what is their approximate gold value ?

Answer.

The most suitable securities should, with the necessary administrative reforms, yield the following annual returns:

	Millions of gold crowns
1. Forests and domains . . .	1
2. Salt	1
3. Customs	40
4. Tobacco	40

Of these, the first three are assigned as security in connection with the new Bank of Issue under the Austrian Government's plan for the Bank. On a conservative estimate, however, of these claims, this would leave 28 millions of the Customs available as a second-rank security, in addition to the 40 millions from the Tobacco Monopoly as a first-rank security.

Moreover, the Committee considers (see answer to Question 4) that the plan for the new Bank of Issue can safely be modified so as to leave the *whole* of the Customs as a first-rank security for the credits required for the transition period.

In addition, the *impôt foncier* should, if necessary, be available (with reform) as a further first-rank security.

The service of a loan amounting even to the maximum of 650 million gold crowns should not exceed about 70 million gold crowns.

In the unanimous opinion of the Committee, therefore, the securities are ample for the credits required for the transition period, on the vital conditions that the reforms recommended are carried through (and the necessary measures taken to ensure sufficient authority to give confidence that they will be carried through) and that external and internal order are assured.

Question 4.

The views of the Financial Committee are requested on the proposed Bank of Issue for Austria.

Answer.

The Committee considers that the establishment of a Bank of Issue is a useful and indeed vital part of the measures required for Austria's re-establishment.

The Committee considers, however, that:

(*a*) The capital proposed, 100 million gold francs, is altogether excessive: 30 millions should suffice.

(*b*) The guarantee by the State of the capital of the Bank and of an adequate return upon it, secured by a first charge on the Customs, should be relinquished. This should be possible if the other measures for the re-establishment of Austria's finances are adopted.

(*c*) The capital should be raised by private subscriptions. If public funds must be used the public interests should be sold out to private holders at the earliest opportunity.

(*d*) The present provision that directors and substitutes elected by general meeting require the confirmation of the Federal Government should be eliminated.

The Committee desires, however, to emphasise the fact that the Bank can only be of use in re-establishing Austria's credit organisation if the drastic reforms require to establish budget equilibrium are also taken (and the necessary credits for the transition period are obtained); and that, even so, it cannot be permanently successful unless her economic position is also gradually established.

Question 5.

Under what conditions can means be proposed for covering the deficit during the period of transition ?

ANSWER.

I. The Financial Committee estimated that the deficit to be covered by means of loans during the first two years is in the neighbourhood of 520 million gold crowns, plus a sum to cover certain advances made this year which raise the total to 650 million gold crowns. This is a budget deficit and, in the first instance, it is Austrian currency, not foreign currency, which is required to meet it. It may be expected, therefore, that, once Austria's internal credit is re-established, a considerable proportion of the deficit will be covered by internal loans. But at present Austria's credit is non-existent, and neither internal nor external

borrowing is possible for her until the following financial conditions have been satisfied:

1. The Austrian Government must forthwith (without waiting for any decision by the League of Nations) take all measures within its power to prevent an increase of the deficit (such as raising of railway, postal, telegraph, and telephone charges, increases in the prices at which the products of the Tobacco and Salt Monopolies are sold, etc., etc.).

2. A Control must be organised and set to work, and evidence must be given of the full co-operation of the Austrian Government in securing its efficient functioning.

3. The Customs revenues and the Tobacco Monopoly, subject to the necessary improvements in administration, must be allocated as security for loans.

The re-establishment of Austria's credit is further dependant on the adoption of various other measures already under discussion by the Austrian Committee of the Council, such as: the guaranteeing of Austria's territorial and economic integrity, under the auspices of the League of Nations; the improvement of Austria's economic international relations, as well as of her internal economic structure; the establishment of an efficient gendarmery throughout Austria; the establishment of the proposed Bank of Issue; and the cessation of new issues of paper money.

When all these measures have been taken and have proved their value, it is reasonable to hope that Austria may be in a position to borrow, both internally and externally, on her own credit. But it would be vain to expect that such reforms could be effectively initiated unless, at the time of their initiation, the Austrian Government and people were able to look forward with some certainty to the achievement of their final purpose of re-establishing financial and economic equilibrium. Moreover, the deficit begins to accrue at once, and the necessary credit on which loans can be issued to provide ways and means for covering the deficit will not exist for many months, unless some basis for credits is found from outside Austria.

The Financial Committee is, therefore, driven to the conclusion that a successful reconstruction of Austria is impossible unless some of the Powers are prepared to guarantee the loans required to cover the anticipated deficit. It is recognised that such

guarantees cannot be given in most cases without the consent of the Parliaments of the guaranteeing Powers, but, if promises of guarantees subject to parliamentary confirmation can be secured at once, these would provide the necessary basis of credit on which the initiation of the reforms depends. The guarantees must cover the full maximum deficit, since it would be both difficult and perilous to embark on the full programme of reform if the means for completing it were not visible from the beginning. This does not necessarily mean that the guarantees for the whole sum will actually come into operation, and it may well prove that the guarantees eventually involve no actual cash liability upon the guarantors. If the reform programme succeeds, there is reason to hope that some part of the maximum deficit can be provided internally or without external guarantees, and that the revenues of the Austrian State will amply secure the service of the guaranteed loans without recourse to the guarantors. But it remains true that guarantees covering the whole total are an essential prerequisite. The larger the number of guaranteeing Powers, the broader will be the basis of confidence.

II. We proceed now to sketch the practical steps to be taken to deal with the deficit, on the assumption that the reforms indicated are initiated and promises of guarantees up to the total of the deficit have been given by various Powers.

The period of transition can best be examined in four stages, viz.:

First stage: from the Promise of Guarantees till the Initiation of the Control.

During the first stage, it is essential that the Austrian Government should take all possible measures for reducing the deficit, but otherwise no change from present conditions will be possible.

Second stage: from the Initiation of the Control till the Ratification of the Guarantees by the respective Parliaments, say, December 31st, 1922.

It is assumed that the new Bank of Issue will open its doors within a few weeks, and the Control to be set up under the auspices of the League of Nations will begin to function. We estimate

that from 120 to 160 million gold crowns will be required to cover the deficit during this second period.

We believe that this sum can be met, so far as it is not covered by the reserve at the disposal of the Austrian Government at the moment of the initiation of the Control, on the following lines. There are available out of the unspent portion of the French, Italian and Czechoslovak credits sums understood at the date of this report to amount to about 45 million gold crowns.

If the lending Governments agree, these sums could be used as part security for three- or six-months Treasury Bills (expressed in gold crowns or in some foreign currency) to be issued in Austria by the Austrian Government and purchased by the Austrian Bank. The Bills might be further secured by a first charge on the Customs and on the Tobacco Monopoly. Possibly the gold belonging to the old Austro-Hungarian Bank might also temporarily be used as security for these Treasury Bills, instead of being deposited in the new Bank of Issue. It would be a matter for arrangement between the Government and the Banks, which are largely concerned in the Bank of Issue, which of the two uses for the gold is preferred. The Austrian Banks might reasonably be asked to accept these conditions as their contribution to the success of the reforms.

Third stage: from Ratification of the Guarantees to the Issue of a Long-term Loan.

As soon as the Government guarantees become available, Austrian Treasury Bills in gold crowns or foreign currencies can be issued, subject to right of redemption out of the proceeds of the prospective loan, secured either as proposed during the second period or by the guarantees of the Powers. The method of using the guarantees can best be discussed in connection with the fourth period. It is important that action by the Parliaments of the guaranteeing Powers should not be delayed beyond December 31st, 1922.

Fourth stage: from the Issue of the Loan to the End of the Transition Period, December 31st, 1924.

If any guaranteeing Government so prefers, it can, of course, obtain power to lend money direct to the Austrian Government

out of its own resources. We assume, however, that most Governments will prefer to confine their assistance to the grant of a guarantee. There are at least three alternative forms under which such guarantees could be given:

(*a*) Each of the guaranteeing Powers might assume a joint and several responsibility for Austrian loans to be issued up to a maximum total of 650 million gold crowns. Such a guarantee would ensure the placing of the loans on the most favourable terms, but we are of opinion that it is politically impossible to secure such a joint and several guarantee.

(*b*) Each Government might guarantee a loan to be issued by Austria on the security of the pledged Austrian assets, plus its own guarantee, up to a given maximum, which would be an agreed proportion of the total required, *e.g.*, supposing that ten Powers agreed to give such guarantees in equal proportions, there would be ten types of Austrian loans, all secured on the same Austrian assets but guaranteed separately by different Powers. Such a plan would greatly restrict the market for Austrian loans and postpone for a long period the date at which Austrian credit could be expected to be strong enough for an Austrian loan to be placed without external guarantee.

[1] (*c*) The guaranteeing Powers might agree to guarantee an agreed proportion of a single Austrian loan, issuable in one or more instalments as required, *e.g.*, supposing, again, that there were ten Powers giving guarantees in equal proportions, each instalment would be guaranteed as to 10 per cent by each Power, and, while the pledged assets would be security for the whole, the individual guarantors would be responsible to the extent of 10 per cent only.

We are inclined to favour this alternative, but the exact application of the guarantees is a matter which can best be determined by the issuing house, or group of issuing houses, which will be called upon to carry through the actual operation of issuing a long-term loan. An early decision will, however, be necessary

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1 This third alternative (*c*) was the one adopted by the Austrian Committee of the Council.

as to the form in which the guarantees are to be applied to the issue of Treasury Bills proposed during the third period.

It is unnecessary to pursue these technical details further at the present stage. Our object in alluding to them is to indicate generally the nature of the guarantees which must be asked for from the various Governments, and the necessity for the legislation which authorises such guarantees being drawn in terms sufficiently wide to cover various eventualities. We are convinced, however, that, if such guarantees were given, there will be no insuperable obstacles in placing all necessary loans in due course either in Austria or in money markets outside Austria, provided always that the Austrian Government and people have, in the meanwhile, proved that they are deserving of the assistance proposed by contributing by all means in their power to the efficient working of the reform plans and of the Control established by the League of Nations.

Question 6.

The Financial Committee is requested to state its opinion as to the conditions which are essential in any control that may be instituted in order to give effect to the recommendations made by the Committee with regard to the re-establishment of Austria's budget equilibrium and her credit.

ANSWER.

The aim of the controlling authority should be to assist the Austrian Government and collaborate with it in carrying out the programme of radical reform upon the realisation of which depends the possibility of borrowing.

This programme must be adopted in advance by the Austrian Government, sanctioned by the Council of the League of Nations, or its Austrian Committee, and voted by the Austrian Parliament. But the vote of the Austrian Parliament cannot be regarded as a mere approval of general principles, which will leave the Austrian Government under the obligation of applying for specific legislative authority to carry out the series of measures of reform, involving reduction of expenditure and increase of taxation,

which will have to be taken to put the plan into effect. The initial approval should be clearly understood as conferring on the Government full powers to take decisions of every kind, *in agreement with the Controlling Authority,* provided that they are in conformity with the approved programme and are directed to giving effect to it.

This programme, which will have been sanctioned by the League of Nations, will, further, become the charter of the Controlling Authority and the source of its power. The Controlling Authority's task will be to ensure that it is carried into effect, but it will have no mandate to insist upon measures which go outside the limits of the programme, or are contradictory with it.

In order to be in a position to fulfil its mission, the Controlling Authority must have the right to determine the nature and form of the accounts, statements or periodical returns which it will require to be submitted to it; to ask for any information which it may regard as useful from any departments of Government; to verify, or cause to be verified, any accounts which it may think fit ; and to make investigations on the spot if it so desires. The Bank of Issue, which will be the cashier of the State, should centralise all the accounts of receipts and expenditure, and submit periodical returns to the Controlling Authority, certifying receipts, expenditure and credit balances of the various departments of the Austrian State. No borrowing operation of any kind should be carried out without the prior authorisation of the Controlling Authority.

The produce of the revenues pledged for the various loans and the produce of any loans should be placed to the credit of special accounts in the Bank of Issue, and such accounts should not be allowed to be drawn upon without the prior authorisation of the Controlling Authority.

Question 7.

The Financial Committee is requested to draw up a detailed report on the nature of the Control to be established in Austria.

ANSWER.

In compliance with this desire, the Financial Committee has the honour to commend to the attention of the Austrian

Committee of the Council the following observations which express its unanimous opinion.

The organisation of a form of control to be applied to Austria raises new problems, for the solution of which precedents can only be appealed to with the greatest caution.

The functions of Control, as the Austrian Committee has already defined them, on the recommendation of the Financial Committee, are to be imposed in accordance with a detailed scheme invested with a twofold authority: that of the Council of the League of Nations and that of the Austrian Parliament.

As regards the Austrian Government, which is to be endowed with full powers to give effect to this scheme, it is the duty of the Control Authority to insist upon the execution of the scheme.

Hence it follows: (1) that the appointment and the dismissal of the Agents of the Control Authority must rest entirely in the hands of the Council of the League of Nations, under the authority of which the execution of the scheme is to be carried out; and (2) that the Council cannot regard the execution of the scheme as a matter with which it has no further concern, and that periodical reports ought to be submitted to it setting out the progress of the work of reform.

It may, however, be asked whether the Council ought to confine its duties within these limits.

It would appear that, if defects or abuses should be ascertained in carrying out this scheme, the Council should continue to be the supreme authority to consider them.

It is, however, desirable that the agents of the Control Authority should have undivided responsibility, and that the Council should not be involved, as the result of constant or frivolous petitions, in interference in the financial administration of Austria. Only by defining in accurate terms the cases where an appeal can be made to the Council for a decision, and the party to whom this right of appeal should be granted, will it prove possible to eliminate these disadvantages.

Among the parties interested, the first place must be given to the Austrian Government.

Consideration, however, should also be given to the rights of the guarantor Governments. The latter, indeed, cannot remain indifferent to the progress of a policy which aims at healthier conditions. They will wish to know whether the latter will have

the effect of diminishing or increasing the risks attaching to their guarantees, but it must be clearly understood that only abuses which are of a nature to endanger the satisfactory execution of the programme should give rise to an appeal.

How can the guarantor Governments be enabled to protect their interests, which demand that the programme of supervision should be properly carried out ?

It would appear *prima facie* that the duty of supervision cannot be entrusted to representatives of the guarantor Governments. The supervision must be carried out under the control of the Council of the League of Nations alone. In the interests of Austria herself, in order that the Council may fully maintain its superior authority and carry out its rôle of arbiter, it would be impracticable to confuse the task of supervision, which is to be accomplished in its name, with the representation of the Governments concerned, which possess a recognised right of appeal. It would, however, be reasonable that the representatives of the guarantor Governments should form a committee and should have the right to examine the execution of the programme and to receive necessary information for their enlightenment.

What relations would in that case be established between this committee and the supervising authority ?

If the Council is to remain the supreme authority, it would no doubt be undesirable that this committee should be in daily communication with the Controller. We therefore propose that the committee should meet periodically — every three or six months, for example — and for preference at the seat of the League of Nations. In any conference with the representatives of the Control Authority, the committee would be entitled to ask for any information or explanation, but they would not have the right to give instructions. If any serious difficulties should arise, or should there be any question of serious abuse, the Council would be called upon to arbitrate in the matter.

The further question arises whether the duty of supervision should be entrusted to a single agent or to a body of persons. In order to reduce to a minimum the expenses of Control and to ensure the necessary uniformity of view, a single Controller would be highly preferable. It should be open to him to secure the help of technical assistants.

The costs of Control would be fixed by a decision of the Council of the League of Nations and would be charged upon the Austrian Budget.

The Control would come to an end, as a result of a decision of the Council of the League of Nations, when that body was of opinion that the financial stability of Austria had been attained by the execution of reforms, without prejudice to any special control of the guarantees given to secure the interest on the loan.

General Statement as to Austria's Position.

The Financial Committee has necessarily confined its examination of the measures required to re-establish Austrian finances within the sphere of financial considerations. It recognises that, apart from these considerations, there remains the problem of the fundamental economic position of Austria. Austria cannot permanently retain a sound financial position, even if she attains it for the time, and maintain her present population, unless her production is so increased and adapted as (with due allowance, of course, for her important invisible exports) to give her equilibrium also in her trade balance.

This balance is at present seriously adverse, partly, but certainly not wholly, as a result of inflation and currency dislocation. All possible measures, whether by the amelioration of the international economic relations, the encouragement of the conditions which would increase Vienna's entrepot, financial and transit business, and of those which will attract further private capital towards the development of her productive resources are, therefore, of the greatest importance.

These are, however, outside the Financial Committee's province. If the appropriate financial policy is adopted and maintained, the Austrian economic position will adjust itself to an equilibrium, either by the increase of production and the transfer of large classes of its population to economic work, or economic pressure will compel the population to emigrate or reduce it to destitution. At the worst, this would be better than the wholesale chaos and impoverishment of the great mass of the town population which must result from the continuance of the present financial disorganisation, which affords no basis for such economic adaptation as is possible.

The Committee feels bound, in conclusion, to issue one word of grave warning. Austria has for three years been living largely upon public and private loans, which have voluntarily or involuntarily become gifts, upon private charity and upon losses of foreign speculators in the crown. Such resources cannot, in any event, continue and be so used. Austria has been consuming much more than she has produced. The large sums advanced, which should have been used for the re-establishment of her finances and for her economic reconstruction, have been used for current consumption. Any new advances must be used for the purposes of reform; and within a short time Austria will only be able to consume as much as she produces. The period of reform itself, even if the new credits are forthcoming, will necessarily be a very painful one. The longer it is deferred the more painful it must be. At the best, the conditions of life in Austria must be worse next year, when she is painfully re-establishing her position, than last year, when she was devoting loans intended for that purpose to current consumption without reform.

The alternative is not between continuing the conditions of life of last year or improving them. It is between enduring a period of perhaps greater hardship than she has known since 1919 (but with the prospect of real amelioration — thereafter the happier alternative), or collapsing into a chaos of destitution and starvation to which there is no modern analogy outside Russia.

There is no hope for Austria unless she is prepared to endure and support an authority which must enforce reforms entailing harder conditions than those at present prevailing, knowing that in this way only can she avoid an even worse fate.

The following members constituted the Financial Committee when studying the above questions:

Chairman: M. Janssen.
Members: M. Arai.
M. Avenol.
Sir Basil Blackett.
Mr. Fass (substitute for Sir Basil Blackett).
Dr. Pospisil.
Sir Henry Strakosch.

Temporary Members: M. Maggiorino Ferraris.
M. A. Sarasin.

B. COUNCIL RESOLUTION OF OCTOBER 4th, 1922.

The Council received from the President of the Conference of the Principal Allied Powers, held in London on August 15th, 1922, a request to study the situation in Austria.

The Council invited the Austrian and Czechoslovak Governments to sit on the Council. A Committee, composed of delegates of Great Britain, France, Italy, Austria and Czechoslovakia, was asked to prepare the resolutions to be submitted to the Council. These proposals have just been received by the Council.

In accordance with these proposals, the Council approves, with the addition of the provisions mentioned below, the scheme submitted — Protocols Nos. I, II with annexes, and III.[1]

It agrees to accept the duties and responsibilities involved by the proposals, and recommends that every State desiring to assist in the reconstruction of Austria by taking part in the execution of the scheme should adhere to Protocols Nos. I and II.

The Council invites the Austrian Committee to continue to watch over any developments in the situation, in order that it may be in a position to present a report whenever such a step is considered necessary.

The Committee is asked to nominate without delay the Commissioner-General mentioned in Protocols Nos. II and III; this nomination shall be ratified by the Council. It is understood that this Commissioner-General should not belong to one of the four Principal Powers taking part in the loan, or to one of the countries adjoining Austria.

The Council, on the proposal of the Guarantor States, which have signed Protocol No. II, decides that the presidency of the Committee of Control of the Guarantor States shall, as long as the system of control [2] defined in Protocols Nos. II and III remains in force, be filled by the Italian member of the Committee, and the vice-presidency by the Czechoslovak member of the Committee.

The French text of the Protocols and annexes shall be the authentic text.

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1 See pages 137-150.

2 It is understood that the period of control in question does not refer to the special control envisaged in paragraph 4 (last line) of Protocol No. III.

2.

FEBRUARY 1923.

A. REPORT BY THE PROVISIONAL DELEGATION OF THE LEAGUE OF NATIONS AT VIENNA,

Submitted to the Council on February 1st, 1923.

Immediately after the signature of the Geneva Protocols on October 4th, 1922, the Austrian Committee decided to instruct the members of the Financial Committee who were then at Geneva to proceed to Vienna before the appointment of the Commissioner-General and to assist the Austrian Government in carrying out the programme adopted. The creation of a provisional delegation of the League of Nations, if required, had, moreover, been expressly provided for in Protocol No. III.

The Delegation consisted of the following:

M. JANSSEN, *Chairman.*
M. AVENOL,
Senator Maggiorino FERRARIS,
M. NIEMEYER,
M. POSPISIL,
M. SARASIN,
Sir Henry STRAKOSCH.

The Delegation reached Vienna on October 17th, 1922, and began work on October 18th.

Under Article 2 of Protocol No. III, the Austrian Government was to draw up " within one month, in collaboration either with the Commissioner-General . . . or with such provisional delegation of the Council of the League of Nations as may be appointed for the purpose, a programme of reforms and improvements, to be realised by stages and designed to enable Austria to re-establish a permanent equilibrium of her budget within two years . . .".

The article in the Protocol accordingly defined in explicit terms the main responsibility which devolved upon the delegation.

Moreover, the Austrian Government, under Protocol III, had definitely and unconditionally pledged itself (Article 8 of Protocol III):

(*a*) To take immediately all measures in its power to reduce the deficit;

(*b*) To submit immediately to the Austrian Parliament a draft law giving the Government full authority to assure the re-establishment of budgetary equilibrium at the end of a period of two years;

(*c*) To prepare immediately a programme of reform, to set in motion the necessary legislative action and to apply the first measures of execution.

Moreover, the Financial Committee's report, which is given as an annex to the Protocols,[1] and which is to serve as a basis for the whole reconstruction programme, laid stress on the vital importance of immediately establishing a new Bank of Issue. Attention was also drawn in the report to the need of special measures to provide the Austrian Government with the funds which it required until such time as the yield of the loan was available, and the report outlined the operations by means of which it might prove possible to discount the yield of that loan.

In the absence of any other authority exercising control, the Delegation was accordingly bound to collaborate with the Austrian Government in giving effect to the immediate measures which the Government had to take in pursuance of its obligations, in organising the Bank of Issue and in carrying out the provisional credit operations. The following paragraphs will clearly show to what extent the various parts of the problem were interdependent and how impossible it was to limit the discussion strictly to the programme of reforms and to refrain from trenching upon other matters.

1. *Programme of Reforms (Reconstruction Law — "Wiederaufbaugesetz").*

On the arrival of the Delegation in Vienna, the Austrian Government submitted to it a draft law, entitled the "Reconstruction

1 "Reply of Financial Committee to Questions referred to it by Austrian Committee of Council". September 1922 (see 1. A. of this chapter).

Law ", which was designed to provide for the re-establishment of budgetary equilibrium within a period of two years. This draft embodied:

(1) Provisions regarding economies to be effected (administrative reforms, reorganisation of State enterprises, etc.);

(2) Provisions regarding the increase in revenue (Customs, monopolies, taxes on consumption, direct taxes, taxes on business transactions and registration fees);

(3) Provisions regarding the financial resources of the provinces and communes;

(4) Provisions regarding the loans provided for in the Protocols for the purpose of covering the deficit during 1923 and 1924.

A detailed programme of the proposed measures was attached as an annex to the law.

The establishment of a fiscal programme of this nature, affecting the interests of every class of the population, was bound to provoke violent controversies between the political parties. The Delegation deemed it advisable to refrain from taking any part in discussions on domestic policy and to leave to the Government undivided responsibility and complete freedom to carry on negotiations. The Delegation deliberately confined itself to the work of determining whether the programme was one which would achieve the essential object in view, *i.e.*, the re-establishment of budgetary equilibrium, and it did not interfere in the question of the allocation of the total burden between the various classes of taxes nor in the choice of the methods of taxation. The scope of its examination of the Reconstruction Law being thus narrowed, the main effect of the modifications in the original draft which the Delegation deemed essential was to induce the Government to reduce the figures which the latter had suggested for the estimated expenditure in the normal balanced Austrian Budget in the form which that Budget would assume in 1925. The Delegation could not, indeed, overlook the fact that any provisions for a surplus in receipts constituted, for the time being, merely a pious hope for which there was no actual guarantee. Little reliance could be placed at present on any forecast of the results which might be achieved by the country in the sphere of taxation during the period of reconstruction — a period which must inevitably impose a severe strain on the national economic resources. On the contrary, reductions in expenditure could be

relied on as a definite result of the reforms which could be carried out by successive stages according to a programme drawn up in advance. The Austrian Government agreed to give due consideration to the observations which were submitted to it in this connection, and, although no definite figures on the subject are given in the law itself, the Delegation was not satisfied until it had reached an agreement with the Government on a detailed scheme to enable expenditure to be reduced at regular intervals and providing for the reduction of the total Budget in 1925 to a sum of 350 million gold crowns, and until it had arranged for a plan of administrative reform involving the dismissal of 100,000 officials, these dismissals to be spread over a period of two years.

2. *Law Regarding Plenary Powers.*

Although the Reconstruction Law scheme conferred upon the Government the powers required to ensure the execution, by means of decrees or administrative action, of the programme which it had drawn up, the provisions of this law did not fully comply with the conditions laid down in Article 3 of the Geneva Protocol No. III, the terms of which are as follows:

> " The Austrian Government will forthwith lay before the Austrian Parliament a draft law giving, during two years, to any Government which may then be in power, full authority to take all measures, within the limits of this programme, which in its opinion may be necessary to assure at the end of the period mentioned the re-establishment of budgetary equilibrium without there being any necessity to seek for further approval by Parliament."

The powers conferred upon the Government by the Reconstruction Law in the form of a list of definite reforms did not possess the required elasticity. It was, moreover, by no means certain that these powers would not be limited by earlier constitutional laws which might prevent the new provisions from being freely applied. Finally, it did not appear that, under the Reconstruction Law, the Austrian Government would enjoy the necessary freedom of action to make, on its own initiative, as expressly provided for in Protocol III, Article 2, paragraph 3, such modifications in the reconstruction scheme as might be regarded as essential.

The Delegation accordingly informed the Government that, in its judgment, the Reconstruction Law should be supplemented by a special constitutional law embodying general provisions with regard to the exercise of the plenary powers. In order to pass this measure, the Government was obliged, under the terms of the Constitution, to obtain a two-thirds majority in Parliament. The internal political situation rendered it wholly impossible to secure this majority, except as a result of an agreement with the Democratic-Socialist opposition. That being the case, the drafting and passing of the law led to protracted discussions between the Government and the opposition, of which the Delegation was informed by the Government, but in which it took no active part.

The law, in the form in which it was passed, provides for the creation of an extraordinary Cabinet Council, consisting of the members of the Government and twenty-six members elected by the National Council in accordance with the principle of proportional representation. Any measures required to carry out the programme of reconstruction which the Government cannot take under the powers which it derives from the Reconstruction Law and any modifications to be made in the programme itself must be approved by the extraordinary Cabinet Council. The discussions of this Council on such matters are limited to a period not exceeding eight days, or, in certain cases, three days.

Among the Acts passed by the Austrian Parliament, the following must, therefore, be clearly distinguished:

(*a*) Ratification of the Geneva Protocols;

(*b*) A programme of reforms and financial improvements passed as an annex to the Federal law referred to below;

(*c*) A Federal law regarding the measures intended to ensure the financial and economic restoration of the Austrian Republic, as defined in the programme;

(*d*) A Federal constitutional law regarding the extraordinary plenary powers granted to the Federal Government, in conformity with the Geneva Protocol No. III.

It is desirable to call attention to the legal relationship existing between these laws and to indicate the scope of the powers which these laws confer upon the Government:

1. The programme enumerates the reforms to be carried out to establish budgetary equilibrium within two years. A list is

given of measures to reform federal enterprises, of administration reforms, of measures to reduce expenses and to increase receipts, and of reforms of the working of the fiscal system. This programme, which was annexed to the Reconstruction Statute and passed together with it, has the force of law.

2. The Reconstruction Law, which is divided into sections corresponding to the chapters in the programme, contains provisions empowering the Government to carry out the reforms.

The provisions dealing with administrative reforms and the reduction of expenditure summarise in legal form the principles worked out in the programme. As a result of the form in which they are cast, the Government is left considerable freedom of action in giving effect to these principles.

As regards receipts, the law determines, for each class of tax, the principles which will guide the Government in fixing the rates or in modifying the assessment regulations. It also lays down the bases of a reorganisation of local finance by fixing the taxes which the local authorities are authorised to levy, the limits of their power and the regulations for dividing certain taxes between these local authorities and the Federation.

In this way the provinces and the communes will be compelled to become self-supporting and to forgo the subsidies which at present constitute one of the heaviest burdens in the Federal Budget.

3. The Constitutional Law regarding the plenary powers authorises the Government, by means of decrees, to take any other measures which may be necessary to carry out the programme of reforms and to introduce any amendments or additions to the programme which experience may show to be necessary.

The effect of these provisions, taken as a whole, is as follows:

(*a*) That the Government retains the right to take, by administrative decisions, all executive measures which fall within its normal constitutional competence (Reconstruction Law, Section E, paragraph 1, No. 4);

(*b*) That the Government will ensure the execution of the programme in so far as it is covered by the legislative provisions of the Reconstruction Law by means of decrees issued in virtue of its own powers (Reconstruction Law, Section E, paragraph 1, Nos. 2 and 3);

(*c*) That any other measures included in the programme not covered by the provisions of the Reconstruction Law will be determined by means of decrees issued in virtue of the Constitutional Law regarding plenary powers and in accordance with the methods prescribed by it;

(*d*) And lastly, that any additions or amendments to the programme may be promulgated by means of similar decrees issued in virtue of the same law.

In view of the scope and general character of the legislative powers granted to the Government by the Reconstruction Law, whether as regards reduction of expenditure or the imposition of taxes, the plenary powers granted by the Constitutional Law will not be used, save in certain exceptional cases. The Cabinet Council will not be called in except when it is necessary to employ these extraordinary powers. The decision of the Cabinet Council must be taken within from three to eight days. If it fails to reach a decision within this period, the Government may put its programme of reforms into immediate execution.

The Law regarding plenary powers was unanimously passed by Parliament on November 26th, 1922.

The Geneva Protocols were ratified by a majority vote on December 2nd, 1922.

The Reconstruction Law was finally passed by a majority vote on December 3rd, 1922.

3. *Bank of Issue.*

The Financial Committee was of opinion, as is stated in its report, that the establishment of a Bank of Issue was a vital part of the measures required for the reconstruction of Austria. The Committee considered that a capital of 30 millions would be sufficient and that this capital should be raised by private subscription.

Under Protocol III, the Austrian Government had undertaken to obtain from Parliament modifications of the statutes of the Bank of Issue as recommended in the report of the Financial Committee and to ensure its complete autonomy in its relations with the Government. After lengthy discussions and negotiations, the Government proposed to Parliament the necessary amendments to the Law of July 24th, 1922, and fresh statutes

for the new Bank of Issue. All these measures were passed by Parliament on November 14th.

An examination of the Bank's statutes shows that its independence will be guaranteed:

(1) By the creation of a board not including any official and elected, with the exception of its President, by the shareholders;

(2) By the fact that its operations will be purely commercial. The Federation, the provinces and the municipalities cannot issue paper money nor can they have recourse directly or indirectly to the funds of the Bank for their own needs without paying in gold or securities the exchange value of the notes received. The issue of notes will be kept within fixed limits, the metallic cover being increased by stages from 20 to $33^1/_3$ per cent; but this cover will not apply to that part of the fiduciary circulation which represents loans previously made to the State by the Austro-Hungarian Bank.

Subscriptions to the Bank's capital were invited between December 4th and 15th. Purchasers of Treasury Bonds issued by the Government were guaranteed the option of acquiring one-half of the shares under conditions which are stated below. The first shareholders' meeting was fixed for about December 20th, immediately after the closing date of the subscription.

4. *Credit Operations for the Purpose of supplying the Government with the necessary Resources before the Floating of the Loan.*

The requirements of the Austrian Government until the date on which the guarantee laws were passed were estimated in September by the Financial Committee at Geneva at between 130 and 160 million gold crowns (in addition to normal revenue from taxation). The measures taken were as follows:

1. In the period October 15th to November 18th, 1922, the requirements of the Austrian Treasury continued to be covered by loans from the Bank. The amounts of these loans rose in this period to 571 milliards. Owing to the gradual establishment of confidence in the execution of the programme of Austrian reconstruction, the increase in the fiduciary circulation due to these loans did not result in any fall in the value of the crown. On November 18th, the Government definitely undertook not to apply for any further advances from the Bank guaranteed by Treasury Bonds.

2. The Government offered in the home market a sum of 50 or 60 million gold crowns in Treasury Bonds at six months, quoted in dollars. These bonds were issued at 8 per cent, and are secured by the gross receipts from the Customs and the tobacco monopoly.

Thirty millions were immediately taken up by the Banks, which effected their payments as from November 14th. The last instalment of this first sum of 30 millions was paid during the first week of December. The second issue was offered to the public as from December 4th. The first information received regarding the public's reception of the issue is favourable. The bonds have the advantage of being repayable in dollars or crowns as the bearer may desire, at an exchange rate of 70,000. Purchasers of Treasury Bonds have been given a right of option on the shares of the Bank of Issue. Both the first issue of bonds, which was absorbed by the Banks, and the second, which is at present being offered to the public, are eventually repayable from the proceeds of the National Loan.

3. For the remainder of the sum required, the Austrian Government looks to outside resources, to be obtained on the balance of the advances previously made to Austria by the French, Italian and Czechoslovak Governments, in accordance with Annex A of Protocol II. The Government proposes to make a similar use of the sums in gold crowns which it will receive as a result of the liquidation of the Austro-Hungarian Bank. These sums represent a total of about 60 million gold crowns.

5. *Preliminary Measures to carry out the Programme.*

Although the application of the regime laid down in Protocol III can only be settled in detail by the Commissioner-General, the Delegation was nevertheless obliged to take immediate steps to enable it to follow from day to day the results of the first efforts of the Austrian Government to carry into effect the programme of reconstruction. It was the duty of the Delegation to assure itself that the yield from the first operations, which was to be placed at the disposal of the Austrian Government, would be employed in conformity with the Protocols, and that the period of reconstruction should not be burdened by excessive expenditure incurred before the arrival of the Commissioner-General.

The Delegation therefore made the following arrangements with the Austrian Government:

A series of special accounts was to be opened in the Austro-Hungarian Bank, namely:

1. *Account A*. The gross yield from Customs and the tobacco monopoly, which, according to the Protocol, are to be allocated as security for the loan which is to be issued, will be paid into a special account called Account A. Acording to a letter dated November 26th from the Ministry of Finance, payments will be made as from December 8th.

2. *Account B*. The yield from credit operations carried out by the Government is to be paid into a special account called Account B.

3. *Account C*. The balance of credits granted by the French, Italian and Czechoslovak Governments to the Austrian Government will be paid into a special account called Account C, and also the sum in gold to be received by the Austrian Government on the liquidation of the Austro-Hungarian Bank.

The Austrian Government may not draw upon Accounts A, B and C except with the assent of the Commissioner-General or, pending his appointment, of the Delegation, and on the signature of a representative of the Delegation. Account A must always be sufficient to cover the service of the loan effected; the necessary sums will be held in foreign bills.

The credit balances earmarked for Account C, which it is intended shall be utilised as security for the 80 millions in Treasury Bonds to be placed shortly on the foreign market, amount to 47 million French francs, 70 million Italian lira and 81 million Czechoslovak crowns; the cash balance at the disposal of the Austrian Government from the liquidation of the Austro-Hungarian Bank amounts to 15,421,000 gold crowns.

The Delegation has asked to be supplied periodically with statistics, the chief of which are the following:

(*a*) A weekly return of gross receipts from Customs and tobacco. This document will serve to check the payments made into Account A;

(*b*) A weekly statement of the operations carried out by the Central Exchange Office;

(*c*) A weekly balance-sheet of the Bank;

(*d*) A daily statement of the position of the Central State Treasury;

(*e*) A weekly summary of the total weekly receipts and expenditure, classified according to the various Ministries;

(*f*) The Austrian Government must, further, send each week to the Delegation an estimate of its requirements for the following week in support of its application for authority to draw upon the funds placed in Accounts A or B.

Only experience can show what form had best be given to the periodical tables sent in by the Austrian Government. The Delegation is already in constant communication with the Government with a view to introducing in the statements as first submitted to the Delegation such modifications as may render them clearer and will enable a more effective control to be exercised. In particular, the Delegation has made every effort to introduce gradual improvements in the form given to table (*e*). It requires, for instance, that this table should include figures showing the receipts and expenditure of the railways.

The following authorisations to draw from the funds in Account B have been granted to the Austrian Government by the Delegation: November 18th, 1,690,000 dollars; November 28th, 1,400,000 dollars; December 4th, 440,000 dollars.

As regards the actual carrying out of the reforms, no hope can be held of obtaining definite results before the arrival of the Commissioner-General. However, the measures taken by the Government are not without importance. Railway and postal rates were raised in October, and, in view of the stability of the crown, this increase was, for the first time, a real one.

M. Hornik, an official in the Ministry of Finance, has been specially entrusted with the task of reducing the number of officials; he submits to the Delegation a weekly statement of the results achieved. Although the number of officials has been reduced by about 10,000 during October and November, there still remains much to be done during December if the discharge of 25,000 officials, as intended by the Government, is to be completed before the beginning of next year.

Finally, the Delegation is making efforts to secure the organisation of the Ministry of Finance in order not only to simplify and to effect direct economies in that Ministry but also with a view to

bringing about a complete change in the matter of the relations between that Ministry and the other branches of the Government, so that it may exercise effective action in limiting their expenditure. The Ministry of Finance has already notified the other Ministries that the estimates for expenditure prepared by them for December must be reduced by 10 per cent. The Delegation requires more; it wishes the total expenditure to be fixed in accordance with the receipts provided for, leaving a margin of 25 per cent to be subsequently allocated by the Ministry of Finance among the various Ministries.

Summary of Position on December 15th, 1922.

By December 15th, 1922, therefore, when the responsibility of the Delegation ceased, on the assumption of office by the Commissioner-General, the following progress had been made in Vienna:

The Protocols had been ratified.

Legislation had been passed comprising a programme of reconstruction and a scheme of new taxation and reduced expenditure designed to secure budget equilibrium as from the end of 1924. This legislation allowed considerable latitude to the Government in execution. It was therefore supplemented by an arrangement between the Government and the Delegation, setting a definite limit to expenditure and providing for a specified reduction of officials. The Delegation was satisfied that, if duly executed, this programme should attain the desired object of budget equilibrium in two years. In addition, a special constitutional law was passed to meet the requirement of Article 3 of Protocol III, giving the Government, in conjunction with a special *Cabinet du Conseil*, full powers for the execution or modification of the programme for two years.

A new law and the statutes of the Bank of Issue, in conformity with the recommendations of the Financial Committee, were passed in a form satisfactory to the Delegation. Subscriptions were invited between December 4th and 15th, and by the latter date all the capital required had been assured.

The financing of Government expenditure by inflationary methods, *i.e.*, by discount operations at the Bank, was stopped definitely on and from November 18th.

The exchange value of the crown has remained stable throughout, the value being 75,000 crowns to the dollar on August 25th, and 70,750 to the dollar on December 15th. It will be noted that this period was one in which the German mark fell from 1,000 to the dollar to 7,000 to the dollar.

Whilst prices of luxury goods and goods for export have risen towards the world level, the general level of prices has, for the first time since the Armistice, tended downwards. The index figure showed a decline in October of 8 per cent, in November of 6 per cent and in December of 3 per cent.

Savings showed a marked increase, the deposits rising during the month of November from 38,644,927 to 60,384,515 (million crowns), or an increase of 82 per cent in two months; this increase was real, as the gold value of the crown had remained stable and its purchasing value slightly increased.

The position of the crown at the end of the period was very strong, as the "Devisenzentrale", through which the exchange operations are centralised, was not only able to meet all demands for foreign currency but had largely increased its holding in foreign currencies, the amount rising from a value of £730,000 sterling on November 15th to £2,850,000 sterling on December 15th.

During the four weeks from November 18th to December 15th, the deficit in the Government Budget was met from internal resources. The Austrian Banks subscribed 30 million gold crowns in November. On December 4th, a further public issue up to a maximum of a second 30 million gold crowns was opened to the Austrian public. The subscriptions received up to December 15th amounted to about 8,000,000 gold crowns. The closing date for subscriptions is December 31st, so that the ultimate result of this issue cannot yet be stated.

The Austrian Government had begun certain of its immediate reforms. In particular, the railway tariffs were substantially increased in October, and up to December 15th there was a net reduction of 11,000 in the number of officials.

In the meantime, in anticipation of the control of the Commissioner-General, the machinery of control had been instituted. As from December 9th, the gross receipts of the Customs and tobacco

monopoly were paid into a special account (Account A) with the Austro-Hungarian Bank, under the control of the Delegation (from December 9th to 19th, the Customs receipts were 7½ milliard crowns, and the tobacco monopoly receipts over 10 milliards). The Delegation will retain the sum necessary from time to time to assure the interest on the loans before releasing the remainder to the Government. In the second place, all the proceeds of the loans (previously mentioned) were paid into a second account (Account B), also under the control of the Delegation. From this account the Delegation realised money after receiving and examing weekly statements from the Government as to its needs. To assist it in this task, a system of statistical returns was instituted. This control, however, which will form a large part of the task of the Commissioner-General, was, of course, only in its initial stages by December 15th.

It may be convenient to remark, among the events of the same period outside the task of the Delegation, that the members of the Committee of Control met at Geneva on November 23rd and discussed the methods by which the different guaranteeing Powers could obtain the required measure of uniformity in the laws authorising the guarantees. On December 15th, the British law was passed by the British Parliament, and the Czech, Belgian and French laws were introduced into the respective Parliaments [1].

On December 12th, the appointment of Dr. Zimmerman as Commissioner-General was announced. He arrived at Vienna on December 15th and began his control on December 16th.

B. REPORT OF THE AUSTRIAN COMMITTEE OF THE COUNCIL,

Submitted to the Council on February 1st, 1923.

Release of Assets from Reparation Charges.

(1) The Reparation Commission has already informed the League that the assets required have been released from reparation

[1] Since that date, the laws have been adopted by the French and Czechoslovak Parliaments.

and relief charges to the extent necessary for raising the capital of the Bank of Issue and the interim short-term loans. It has also taken a general decision, declaring itself disposed in principle to liberate Customs and tobacco revenues for an external loan. The further decision required, however, as a condition of raising a long-term loan as contemplated in the Protocols has not yet been taken.

(2) The Committee of Control has now authorised the Austrian representatives to conclude a short-term loan on specified conditions. One of the conditions of this loan may be an arrangement by which the short-term bonds can be accepted as subscription to the long-term loan. In the negotiations, therefore, it is important that the Austrian representatives should be in a position to discuss the conditions of the long-term loan.

In addition, Austria has been authorised to begin negotiations for the long-term loan. Among the essential conditions of the flotation of this loan is a priority for the loan charges on the assets assigned under the Protocols. It is essential, therefore, that the Reparation Commission should be asked now to extend its decision so as to be applicable to the long-term loan.

(3) The priority for loan charges is, of course, required not only in the interests of the flotation of the loan but equally in the interests of the guaranteeing Powers, in order to prevent the guarantors being called upon.

(4) It is suggested, therefore, that the Austrian Committee should ask the Council to write to the Reparation Commission stating the position and including paragraphs to the following effect:

> " Among the essential conditions for the negotiation of a long-term loan is the prior release from other charges of the assets on which, under the Protocols, it is to be secured.
>
> " The Council hopes that the Reparation Commission may be in a position to take at once the necessary steps in order to secure that the assets concerned may be made available for this purpose, in accordance with the above-mentioned Protocols, and especially paragraph 5 of Protocol III.
>
> " The Council considers it essential, alike in the interests of the flotation of the loan and of the guaranteeing Powers, that

the decision of the Commission should include the exception of the assets referred to from all charges in respect of reparations for twenty years, as contemplated, in principle, in the decision of the Commission of July 21st, 1922, and also allow a prior charge, if necessary, during a further period upon such assets, until all claims in respect of the loan have been met.

" The Council also considers it necessary that a similar priority should be obtained over any charges in respect of relief credits, and hopes that the Commission may, at the same time, be able to take steps to obtain any necessary consent of the countries concerned. "

C. COUNCIL RESOLUTIONS OF FEBRUARY 1st, 1923.

I.

(1) The Council approves and authorises the publication of the report of the Provisional Delegation of the League[1] and expresses its thanks to the members of that Delegation for their valuable work at Vienna from October 17th to December 15th, 1922.

(2) The Council approves and authorises the publication of the first report of the Commissioner-General and expresses its appreciation of the work accomplished and of the progress indicated in that report.

(3) The Council notes with approval the report of the Committee of Control[2] and the decisions and resolutions of the Committee therein contained. The Council approves the despatch of an appeal of the kind recommended by the Committee of Control to certain countries which have promised participation in the guarantee of the loan, and to others which are now considering the possibility of participating with a view to the completion of the guarantee.

(4) The Council approves the report[3] transmitted by the Austrian Committee with regard to the release of certain Austrian assets from reparation charges, and authorises the despatch of a

[1] See 2. A. above.
[2] See *Official Journal*, March 1923, p. 338.
[3] See 2. B. above.

tter in the name of the Council to the Reparation Commission to the effect recommended in the report.

II.

(1) The Council recognises and appreciates the substantial results already obtained in carrying out the reforms recommended in the Geneva Protocols. Legislation has been passed to secure the execution of the reconstruction programme; a new Bank of Issue has been founded, inflation has ceased, the crown has been stabilised, a preliminary and considerable reduction in the number of officials has taken place, while the returns from certain State enterprises and important revenue-producing duties have been increased. Finally, the 1923 budget has been established within the limits prescribed by the League of Nations.

(2) The Council notes with satisfaction that the Austrian Government and the Austrian public, realising the promise which it gives for the future of Austria, have co-operated in the accomplishment of this programme. The confidence of the public has been shown in the subscription of the necessary capital of the new Bank of Issue, and of over 50 million gold crowns to an internal loan before any external loans have been raised. Moreover, there has been an increase in three months of more than 500 per cent in savings bank and bank deposits, and a large increase in the foreign currencies which serve as a cover for the new Bank of Issue.

(3) These striking facts have confirmed the Council in its belief that the scheme embodied in the Geneva Protocols gives ground for confident hope in the final reconstruction of Austria, on condition that the Austrian Government continues to show unrelaxing determination and receives the confidence and continuous support of the people.

(4) The Council notes these results and signs of a return of national self-confidence with the greater satisfaction because it was foreseen by the League of Nations in September 1922 that the effort required from Austria for the maintenance of her economic independence and the restoration of her prosperity required from the whole nation a spirit of sacrifice and self-

denial during the necessary transition period while the reform programme is being put in force.

(5) The Council is in complete agreement with the Commissioner-General, of whose firm action and well-advised recommendations it desires to express its appreciation and approval. The Council fully agrees with him that it is essential that the financial reconstruction of Austria and budget equilibrium should within two years be an accomplished fact, and that the Austrian Government, with the support of the Austrian people, should proceed in the path of reform with rapidity and determination.

(6) The Council is convinced that, in so far as measures of reform are submitted under the constitutional law to the special Cabinet Council, this arrangement should not be used to delay or to render less effective the decisions required for the rapid execution of the programme of reform. The Council relies upon the spirit of co-operation and patriotism in the members of the Cabinet Council to assist the Austrian Government effectively in the heavy task which it has courageously undertaken. It is only by unceasing energy and united action, by using their rights with a due sense of responsibility, and by giving to and obtaining for the Government all powers which may be necessary that they will crown their work with success.

(7) While recognising the considerable reduction in the number of officials which has already been achieved, the Council considers it its duty to draw attention to the passage of the Commissioner-General's report in which he points out that a satisfactory continuation of this reduction will only be possible if a radical reorganisation and simplification of the administrative system is undertaken and if the reforms are carried out with unrelaxing determination and, so far as possible, by the concentration of administrative powers in a single authority.

(8) Finally, the Council regards it as essential that the Austrian Government, with the support of every section and party of the nation, and with the assistance of the Commissioner-General, should set itself to give prompt and adequate effect to the measures and reforms contemplated in the Geneva Protocols, which were dictated solely by the desire to safeguard the interests of Austria herself and to restore her to complete prosperity.

3.

APRIL 1923.

COUNCIL RESOLUTIONS OF APRIL 22nd, 1923.

I.

In connection with the second and third reports of the Commissioner-General:

The Council takes note of the two reports of the Commissioner-General for the periods January 16th to February 15th and February 16th to March 15th, 1923, and of his supplementary statements to the Council.

The Council desires to express its full endorsement of the policy of the Commissioner-General as therein explained.

The Council recognises the progress hitherto achieved and, in particular, it notes with great satisfaction the statement by the Commissioner-General that the expenditure up to date and the present budgets are well within the provisions of the programme of reform. The Council, at the same time, recognises with satisfaction his statement that internal reforms have been made in several departments which will afford a solid basis for future economies.

At the same time, the Council feels a particular responsibility to the public and the guaranteeing States now that the proceeds of the first loan are in the hands of the Commissioner-General and that authorisation has just been given for the issue of the main long-term loan contemplated by the Geneva Protocols.

The Council has in mind the fact that the whole success of the scheme of reconstruction depends upon the continuously prompt execution of the reforms and that for this purpose the Protocols confer not only the right but the duty upon the Commissioner-General to make the release of the proceeds of the loan in his hands conditional upon the due and satisfactory progress in those reforms. With this in mind, the Council notes specially the statement of the Commissioner-General that the period is approaching when the programme necessarily requires considerable reductions in the limits of monthly expenditure and his definite opinion that these narrower limits will necessitate the execution in the near future of drastic and energetic reform, as detailed in his reports.

In particular, the Council desires to call attention to the special urgency of rapid economy in the railway administration, the deficit of which must properly be regarded as the centre of the whole Austrian financial problem. The Council is glad to learn that the Austrian Government has taken the first steps towards placing the administration upon a commercial basis and for this purpose is obtaining the best expert advice. The Council hopes that this comprehensive scheme will be proceeded with as rapidly as possible but that, in the meantime and without waiting for its completion, the many obvious and practicable measures of reform that can be now taken should be taken at once.

In addition, the Council desires to call attention to the necessity for increasing the rate of reduction in the number of officials throughout the administration, noting that, while the earlier figures were satisfactory, the later figures appear to indicate some slackening of effort.

While calling attention to these particular spheres in which renewed effort is necessary, the Council has also in mind the many favourable factors in the situation which were described in the resolution of the Council of February 1st, 1923, and also the satisfactory figures of subsequent expenditure now given by the Commissioner-General. It is also extremely glad to note the declaration of Mgr. Seipel, which gives an assurance on behalf of the Austrian Government, of the Austrian Parliament, and of the Austrian people that the further continued effort that is necessary will be faithfully made in collaboration with the Commissioner-General.

With these considerations before them, the Council desires to state, as in January, that it is again confirmed in its belief that the scheme embodied in the Geneva Protocols gives ground for confident hope in the final reconstruction of Austria, on condition that the Austrian Government and Parliament continue to show unrelaxing determination and receive the confidence and continuous support of the Austrian people.

II.

(1) The Council decides to ask any country which may be intending to give a guarantee but which may be unable to give that guarantee before the issue of the first prospectus, to amend

the text of its law so as to enable a direct advance to be given by the Government of the country in question, like the Swiss advance (secured by the same Austrian assets as the principal loan), or in such similar manner as may achieve the same purpose.

(2) Concerning the last sub-paragraph of paragraph 4 of Protocol III, *viz.:* " The functions of the Commissioner-General shall be brought to an end by a decision of the Council of the League of Nations when the Council shall have ascertained that the financial stability of Austria is assured without prejudice to any special control of the assets assigned for the service of the loan", the Council confirms the interpretation of the Committee of Control that the special control contemplated in this paragraph shall, like the Committee of Control, be in a form suitable for safeguarding the interests of the countries guaranteeing the Austrian loan.

(3) The conditions of the loan agreed to by the Committee of Control include the appointment of the Chairman of the Financial Committee of the Council of the League as a temporary trustee on behalf of the bondholders and the subsequent nomination by the Council of three or more persons to act as Trustees for the same purpose. The Council gives its consent accordingly.

(4) The Council decides to extend the powers both of the Commissioner-General and of the special control organisation provided under Article 4 of Protocol III and of the existing Committee of Control to the service of the balance of the Czechoslovak advance made in 1922 after deducting the equivalent of 60,000,000 gold crowns. The Council will also invite the Trustees who are to be appointed for the loan to take under their charge the service of the bonds to be issued by the Austrian Government in Czechoslovak crowns in accordance with Annex B of Protocol II in order to cover the balance of the Czechoslovak advance made in 1922.

(5) In general, the Council notes the conditions under which the Committee of Control has authorised the issue of the long-term loan, and desires to express its confident hope that the result of the issue will be as successful as that of the short-term loan.

4.

JULY 1923.

COUNCIL RESOLUTION OF JULY 2nd, 1923.

The Council takes note of the fourth and fifth reports of Dr. Zimmerman, the Commissioner-General at Vienna. It desires to express its appreciation of the progress indicated therein in the work of reconstruction in Austria and to convey its congratulations both to the Austrian Government and to Dr. Zimmerman.

At the same time, the Council takes this opportunity of expressing its satisfaction at the great success which has attended the issue of the Austrian Long-Term Loan and of thanking all those whose unremitting efforts in many countries in Europe and in America have contributed to this success.

The external world has now made its great contribution to the work of reconstruction in establishing the conditions on which an adequate loan could be floated, and in subscribing to that loan. The Council is confident that Austria herself, with the advice and support of the Commissioner-General, will proceed rapidly with the execution of its own share of the work; the completion of the administrative reforms, the balancing of the budget, and the establishment of Austria's finances on a sound and self-supporting basis.

The Council, on the proposal of the President, also appointed, in accordance with the suggestion of the Financial Committee:

M. A. E. Janssen,
Mr. N. J. Jay,
M. M. Wallenberg,

as Trustees for the Austrian Long-Term Loan.

5.

SEPTEMBER 1923.

COUNCIL RESOLUTION OF SEPTEMBER 20th, 1923.

The Council takes note of the sixth, seventh and eighth monthly reports of the Commissioner-General at Vienna, covering the

period from May 15th to August 15th, 1923. It notes with satisfaction the progress made, which exceeds the expectations of a year ago, and expresses the confident hope that Austria will continue without relaxation the efforts which are still needed to achieve the results required during the coming year.

6.

MARCH 1924.

COUNCIL RESOLUTION OF MARCH 12th, 1924 [1].

The Council of the League of Nations:

(1) Takes note:

(*a*) Of the twelfth, thirteenth and fourteenth reports from the Commissioner-General; and

(*b*) Of the letter of March 10th from the Austrian Government to the Commissioner-General, forwarded by the latter to the Council [2].

(2) Seeing that the above letter was only received by the Commissioner-General himself during the present session of the Council and the questions referred to in it require careful and exhaustive investigation, the Council decides to postpone discussion until the next session.

In the interval, since the matters dealt with in the Austrian memorandum give rise to problems which are closely associated with the questions which will come before the Council for consideration at the time when the latter is called upon to decide whether the equilibrium of the budget has been established on a permanent basis in conformity with the provisions of the relevant article in Protocol No. III, the Council requests the Commissioner-General and the Financial Committee to examine the Austrian letter and to acquaint it with their views on the questions raised. It requests the various Governments represented on the Council to supply the

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1 The Council also discussed the financial reconstruction of Austria at its Meeting of December 18th, 1923, but took no resolution. (See *Official Journal*, February 1924, page 369.)

2 See *Official Journal*, April 1924, page 683.

Commissioner-General and the Financial Committee with any particulars which they may be able to furnish with a view to assisting the former in their investigations. The Council would also be glad to receive any opinion which the Committee of Control would like to express on the question.

(3) The Council notes with satisfaction the fact mentioned in the Commissioner-General's reports that the monthly budgetary deficit of the Austrian State has been considerably reduced and that during the last months, within less than a year after the establishment of control, the figures for receipts would seem to have coincided with those for expenditure. It takes note that in these circumstances it is possible that a considerable portion of the reconstruction loan will remain unused at the end of the year.

At the same time, it concludes from the Commissioner-General's reports that the above result has been obtained owing to an increase in the yield of taxes rather than a reduction in the total figure for public expenditure. It notes that the Commissioner-General is of the opinion that not all the present receipts are of a permanent character and it points out that programmes for concrete reforms have been established and still remain in force. It hopes accordingly that the administrative reforms and the reduction in the State's liabilities will continue, so as to reduce expenditure in conformity with the general tendency of the programme, which is to ensure equilibrium on the basis of permanent stabilisation.

(4) In consequence, the Council wishes to point out that:

(*a*) The original programme adopted by the Austrian Government constitutes a solemn undertaking the execution of which remains obligatory unless modified with the consent of all the contracting Parties;

(*b*) Under the terms of the Protocols, the control can only be withdrawn when permanent equilibrium is re-established in the Austrian budget and the financial stability of Austria is assured;

(*c*) Under the terms of the Protocols and of the prospectus for the flotation of the various blocks of the loan, *i.e.*, of the undertakings entered into towards the guarantor States and the bondholders, the total yield of the loan can only be employed under the control of, with the authorisation of, and for purposes approved by the Commissioner-General.

7.

JUNE 1924.

A. REPORT BY THE FINANCIAL COMMITTEE AND THE COMMISSIONER-GENERAL,

Forwarded by the Austrian Committee to the Council, June 14th, 1924.

The Council, on March 12th, 1924 [1], requested the Commissioner-General and the Financial Committee to study the Austrian Government's letter of March 10th, and to present their views at the June session of the Council. The Council at the same time invited the Committee of Control to forward any opinion which it might wish to express.

The Austrian letter raised two questions:

(1) The level at which budget equilibrium should be sought;

(2) The utilisation of any loan surplus not required to meet budget deficits.

The Austrian letter has been since supplemented by a communication made by representatives of the Austrian Government, in which they suggest that the level for the expenses should be 520 million gold crowns (exclusive of capital expenditure) and for revenue receipts 533 million gold crowns.

To carry out the Council's instructions, the Commissioner-General has made a long and detailed study of the Austrian, financial position with the aid of his permanent collaborators, including M. Quesnay, M. Pelt and M. Rost. The Chairman of the Financial Committee, M. Janssen, and M. Denis, of the Secretariat, have also visited Vienna on behalf of the Committee. In addition, Mr. Loveday (Head of the Intelligence Division of the

[1] See 6 above.

League Economic Section) and M. Jacobsson (specialist in public finances) have also spent some time in detailed studies at Vienna.

In addition, the Financial Committee has discussed the position in detail with representatives of the Austrian Government at Geneva.

I. *The Basic Budget Figure.*

The total State expenditure on which the Austrian Government agreed with the League delegation in 1922 to base the budget equilibrium was 350 million gold crowns. As the Council pointed out in its resolution of March 12th, this constitutes a binding engagement, unless modified by consent of both parties.

At the same time, the 350 millions was not necessarily intended to be an immutable figure independent of any changes in the financial and economic development of Austria. It was necessarily, and properly, a cautious and prudent basis, adopted at a time when stabilisation was only beginning and before its results could be known. It was specifically recognised by the League delegation that the figure might be reconsidered in the light of the Commissioner-General's observations on the development of Austria, and the Council in March similarly accepted the principle of reconsideration in asking the Commissioner-General and the Financial Committee to study the whole situation.

Although we feel able to say, as the result of the experience of the last twenty months and the expert reports we have received on the financial and economic development of Austria, that the figure of 350 millions should be raised, we do not feel able at this date, for the reasons we give below, to recommend a definite figure in substitution for it. We must, moreover, add at once that we feel grave doubt as to whether the ultimate figure can be high enough to support the present expenditure of Austria taken in conjunction with increases under consideration. We think it well to make this reserve at once, as the Council, whose desire is, of course, to assist Austria to regain a self-supporting prosperity and to terminate the control at the earliest possible moment, will doubtless wish to remind the Austrian Government and people of the need for continued and increased efforts of economy and reform, if this result is to be achieved at an early date.

We feel very keenly our responsibility towards Austria herself in this matter. We realise that the confidence both of the Austrian

people and of the outside world, on which Austria's credit and therefore her prosperity essentially depend, rests to a large extent upon a faith in the execution of the scheme of reconstruction and the plan of reform.

It is with this preoccupation that we feel bound to press for urgent progress with administrative reform, without which neither we nor the world can feel confident that budget equilibrium will be maintained.

A basic budget figure is required partly as a basis for current administrative policy and partly as an indication of one of the most important (though by no means the only) factor which the Council must have in mind in considering, when the time arrives, whether the financial position of Austria is assured.

When the Council considers this question, we imagine it will have regard to the following factors:

> (*a*) Whether equilibrium has in fact been attained and since what date, having regard both to actual payments and to liabilities;
>
> (*b*) Whether the bases of the equilibrium in the light of the relevant circumstances are in their nature permanent; in particular, whether the taxes are such (having regard to their effect on the economic life of the country and to the total charges on its taxable capacity) that they can and will be effectively continued (or others with an equal yield substituted), and whether their yield is likely to be maintained; whether the administrative organisation and policy are such as both to show the position clearly and to indicate the probability of no increase in expenditure or no increase without corresponding new receipts, and whether the monetary situation is satisfactory.

In this series of considerations, the determination of a basis—*i.e.*, the fixing of a maximum figure which is not so high as to threaten that taxation receipts equal to it will not be maintained—is an important factor.

We are unable at present to recommend a definite figure for this purpose, because the situation itself is not yet sufficiently clear to enable us to draw final conclusions. In this connection, we would

remark that there has recently been a financial crisis in Vienna, the results of which are not yet fully worked out.

II. *Disposal of the Loan.*

The loan is hypothecated in the first instance, not only by the terms of the Protocols but by the conditions of the prospectuses, which constitute an immutable obligation to the bondholder, to meeting budget deficits until the time when a balanced budget is assured. It would therefore, in our view, not only be inconsistent with the main principle of the reconstruction scheme and with the engagements to the Council and the guaranteeing Powers, but a breach of faith with the bondholders, if any part of the loan money were so invested that it would not be safely and readily available for its primary purpose, until the Council is certain that it will not be required for that purpose. This moment has clearly not yet arrived.

Subject to this, we think that, when the Council is confident that the money will not be required for budget deficits, the question might well be considered at that time, and with due regard to the several rights and interests involved, in what way the surplus, if any, can be used in the interests of Austria (subject, of course, to the control of the employment of these sums as contemplated both by the Protocols and by the resolution of March 12th).

In these circumstances, we recommend that the Council should authorise the Commissioner-General and the Financial Committee to continue their enquiry in collaboration with the Austrian Government. We are convinced that this work, which should take place at Vienna, will assist the negotiations of the Commissioner-General with the Austrian Government as to the current development of its policy restricting budget expenditure.

The collaboration of the Austrian poeple as a whole in this policy will be the most effective means of expediting the date at which the Council can terminate the control of the Austrian budget, which, in the terms of the Protocol, is to be brought to an end "when the Council shall have ascernained that the financial stability of Austria is assured".

B. RESOLUTION ADOPTED BY AUSTRIAN COMMITTEE OF CONTROL, JUNE 13th, 1924.

The Committee of Control desires to express its agreement with the conclusion of the Finance Committee, and particularly in the view that the moment has not yet arrived when the final disposal of any balance of the guaranteed loan can be considered.

The Committee of Control would point out that, if the question arises, it will be necessary to have regard to the information given in the prospectuses as to the purposes of the guaranteed loan and to the othe rirghts and interests concerned.

C. COUNCIL RESOLUTION OF JUNE 16th, 1924.

The Council, after consideration of the joint report of the Financial Committee and the Commissioner-General [1] with regard to the requests of the Austrian Government;

And having taken note of the observations of the Committee of Control [2];

Appreciating the results already obtained by the Austrian Government, in collaboration with the Commissioner-General, and at the same time recognising the necessity of further progress in the respects indicated in the report:

Adopts the conclusions of the report, requests the Financial Committee, in collaboration with the Commissioner-General, to proceed with the enquiry proposed and hopes that the results of this work will enable the Austrian Committee to determine before the next session of the Council a new maximum figure of expenditure.

The Council observes, however, that the report includes the definite opinion that, whatever the ultimate figure may be, it will necessitate further economies in present expenses.

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1 See 7. A. above.
2 See 7. B. above.

The Council expresses the earnest hope, therefore, that the Austrian Government will, in the meantime, pursue with energy the execution of the scheme of reform in the light of the report.

8.

SEPTEMBER 1924.

A. JOINT REPORT BY THE FINANCIAL COMMITTEE AND THE COMMISSIONER-GENERAL, SEPTEMBER 15th, 1924.

When, in October 1922, a delegation of the Financial Committee went to Vienna to study the situation, Austria was undoubtedly one of the countries in Europe which seemed nearest to ruin. The moment was apparently approaching when Austrian currency would have lost all value and when there would be a danger of famine and sudden anarchy.

The State had no proper budget. All that could be said was that only a third of the total expenditure seemed covered by normal revenue. The remaining funds required by the Treasury were obtained from the printing-press of the Bank of Issue. Between January and August 1922, the currency fell from 1-1,000th of its pre-war value to 1-15,000th. The monthly deficit had risen to about 40 million gold crowns. The complete financial chaos and total absence of any supervision over the administration of the various departments obviously made the task to be accomplished one of almost insuperable difficulty. The number of officials was out of all proportion to the size and importance of post-war Austria.

Those who believed in the political stability and financial improvement of Austria dreaded the grave economic crisis which appeared to be imminent. Industry and commerce did not dare to re-adapt themselves to a sound currency system, the success of which was still uncertain, for they feared that very great difficulties would be encountered. Unemployment on a large scale was anticipated, and, indeed, a few months later 170,000 unemployed were in receipt of relief.

The habit of saving had entirely disappeared in Austria. There was some doubt as to whether the stabilisation of the crown, which had been effected only a few weeks previously, could be maintained, and whether the Austrian people, discouraged and indifferent as it was, would be capable of making the effort required.

Any Austrian who recalls this state of affairs, with all its dangers and anxieties, must, in September 1924, feel happy at the change which has occurred in the situation within the short space of two years. The intervention of the League of Nations and a remarkable change in public opinion have made it possible to convert Austria, which was on the verge of ruin, into a reorganised State—a State far from perfect, no doubt, but one in which order is assured and calculations may be made for the future. This result has been obtained by sacrifices far less heavy than those thought to be unavoidable in 1922.

Foreigners, too, are able to appreciate the difference and to note the great progress which has been made. The deficit is not very large; the expenditure of each department is limited and controlled by the Ministry of Finance; taxation, although heavy, is coming in regularly. Although industry, trade and finance are experiencing, in addition to the enormous difficulties of the post-war period, other difficulties due to wild speculation, and are suffering from a shortage of capital consequent on inflation, undertakings established before the war find that they have to a large extent been relieved of the burden of their former liabilities in crowns. On the whole, their position would not appear to be appreciably worse than that of business undertakings in most other countries.

The Austrian crown has remained absolutely stable throughout this period. The National Bank can reckon upon maintaining this stability by means of its foreign currency reserves and adherence to a firm monetary policy.

In spite of the vast work of reorganisation which has already been accomplished, many reforms have still to be carried out. The Government recognises the need for continuing its efforts and intends to convert to its point of view a public which perhaps continues to be too deeply impressed by the progress hitherto made. We wish to call attention to the fact that in our June report to the Austrian Committee we stated that "the collaboration of the Austrian people as a whole in this policy will be the most effective means of expediting the date at which the Council

will be in a position to declare that, to use the words of the Protocols, the ' financial stability of Austria is assured ', and on which it can therefore bring to an end the control of the Austrian budget ".

The general need for capital is considerable. The imprudent action of Austrian speculators made an unfavourable impression in foreign financial centres. Private Austrian undertakings can therefore only hope to receive funds in sufficient quantity if the necessary steps are taken to attract investors.

In June, the Council instructed the Financial Committee, in collaboration with the Commissioner-General, to conduct an enquiry in Vienna as to the level at which the budget should be balanced.

The question of the manner in which the residue of the loan should in future be employed was fully dealt with in our June report. Our attention was also drawn to the question of the temporary employment of the outstanding portion of the loan. From what we have observed it seems that Austrian public opinion does not quite realise the actual facts. The sum held abroad only represents for the moment one-third of the remainder of the loan. It is absolutely indispensable that a sufficient proportion should be maintained in an immediately available form abroad.

In order to meet the wishes of the Council, a Delegation of the Financial Committee, consisting of M. TER MEULEN (Chairman), M. DUBOIS, M. JANSSEN, M. MAZZUCCHELLI (in place of M. BIANCHINI), Sir Otto NIEMEYER, M. PARMENTIER and M. POSPISIL, proceeded to Vienna, where they studied the situation on the spot with Dr. ZIMMERMAN, the Commissioner-General of the League of Nations in Austria.

The Delegation immediately established contact with the Austrian Government, and, in order to examine the position in all its aspects, it set up five Sub-Committees.

These Sub-Committees, or the Delegations as a whole, interviewed not only Government representatives and higher officials but also the Chairman of the Administrative Council and the Managing Board of the Federal Railways; the Chairman, General Manager and Adviser of the National Bank; and delegations representing leading economic bodies and associations—finance, commerce, industry, labour and agriculture. We wish to express our gratitude for all the information communicated to the Delegates, both verbally and in writing, which has enabled us to gain as accurate an idea of the situation as could be formed.

1. *The Economic Situation.*

Our first care was to study the general economic situation All the evidence heard tended to show that the most acute period of the recent banking crisis was now past. This crisis, which was caused by Stock Exchange speculation in 1923, and which was accentuated by more recent speculation in the franc, has resulted in a definite diminution of Austrian capital. Speculation in the French franc assumed three forms: (*a*) Stock Exchange speculation; (*b*) direct speculation through institutions or private persons abroad; (*c*) the purchase of goods. We possess no estimate of the total loss, but the losses on the Stock Exchange amounted to 58 million French francs. The losses due to direct speculation are probably less.

The slump on the Stock Exchange and the withdrawal of foreign capital caused a considerable tightness of credit and made it. impossible for private banks to grant their industrial customers all the credits desirable for working expenses. The banks, therefore, applied to the National Bank.

The effect of the crisis on the position of the National Bank may be summarised in the following table:

	1924 March 31st	Aug. 7th	Aug. 23rd	Aug. 31st
		(Milliards of paper crowns)		
I. Circulation including liabilities arising out of current accounts and other obligations at sight . . .	7,897	8,904	8,695	8,999
II. Metal Reserve. . .	4,060	3,350	3,252	3,561
III. Bills discounted, warrants and other securities	1,733	3,330	3,210	3,226
IV. State Debt.	2,295	2,230	2,230	2,219
V. Cover (I by II [1]). .	51.4%	37.6%	37.5%	39.6%

On June 5th, the National Bank raised its rate from 9 per cent to 12 per cent and on August 13th from 12 to 15 per cent, increases which, in our opinion, should have been made sooner. More

[1] According to the Statutes of the Bank, the total circulation (I), less the State debt (IV), must be covered to the extent of 20 per cent, at least, from 1923 to 1928. The cover thus calculated (I-IV by II) was on the various dates 72 5, 50.2, 50.3 and 52.5 per cent.

recently still it has informed private banks that it intends in future to exercise very strict discrimination as regards the bills submitted for discount. We entirely agreed with these measures, which should certainly be maintained. The result has been that the banks have also increased the rate of interest paid to depositors, following the increase of the official discount rate, the last increase being from 9 to 12 per cent.

During the period from the end of March to the end of August, the total decrease in the currencies reserve was about 9 million dollars, but, as the above table shows, the monthly reserve increased again during the last week of August as a result of the stricter policy adopted by the National Bank in the credit market.

Wholesale prices, which have increased by 8 per cent since the beginning of the year, rose 5 per cent between July and August; and the adverse trade balance has been far greater during the first half of the present year than during the corresponding period last year. It is, however, possible that the very heavy imports of late are due, as is generally believed in Austria, not to high prices at home but to speculation in goods purchased with French francs. We have not sufficient evidence to state with certainty whether prices in Austria are or are not above the world level. We are of opinion, however, that the movement of prices, as well as the rates of exchange, should be a matter to which the authorities responsible for the policy of the Bank of Issue should give their constant attention.

We have noted with satisfaction that all classes of the population are unanimous in considering that a stable rate of exchange is the fundamental condition for economic prosperity and are unanimous in rejecting the idea of any fresh inflation. Although it is too early to ascertain with certainty the final results of the bank crisis, we think nevertheless that, if a sound banking and financial policy is maintained, the stability of the crown cannot be threatened.

Industrial production does not, up to the present, appear to have been seriously affected by the financial crisis. Imports for the first half of this year rose to 553 million gold crowns, as compared with 457 million gold crowns during the first half of 1923 and 535 millions during the second half. Unemployment steadily decreased down to the end of June, on which date the total number of unemployed in receipt of assistance was 63,000. The subsequent increase brings these figures up to 74,000 for the end of August.

Savings deposits have constantly increased; in February, they were 810 milliard paper crowns; in May 1,138; in June 1,240, and in July 1,396. It is only after some considerable time, however, that the industrial consequences of a financial crisis become apparent.

The final effect of the financial crisis on the economic situation will mainly depend on whether credits are obtainable abroad, particularly long-term credits. All witnesses interviewed were in agreement on this point, and the need appears to be as great for agriculture as for industry.

Although farmers have benefited by the situation as a result of the almost automatic annulment of their hypothecary liabilities, both during the war and during the subsequent period of inflation, we were informed that there was a very urgent need both of long-term credits for carrying out general productive improvements and restoring or improving the fertility of the soil, and of seasonal or short-term credits. The farmers whom we interviewed insisted on the necessity of establishing a mortgage bank with the aid of foreign capital, as they stated that there was not sufficient capital available in Austria.

One of the effects of the financial crisis has been the withdrawal of a considerable amount of foreign credit. The Delegation therefore gave special consideration to the points concerning which Austria herself can take action—which appeared to constitute an obstacle to the entry of foreign capital into the country. The most important of these obstacles seem to be attributable to the taxation system. The " Banken- und Valutenumsatzsteuern " render both foreign and Austrian capital unnecessarily dear. They are essentially unsound in principle because they reduce the rapidity of the circulation of capital. Moreover, the taxation system makes it difficult to issue debenture bonds, and this, hindering as it does the consolidation of industrial debts, renders the position of industry unstable and in the long run causes a loss to the State. The industrialists and bankers whom we saw expressed the opinion that even bonds repayable at the end of one year would be of very considerable help in the restoration of Austrian industry; they said that they would do everything in their power to secure the placing of such bonds abroad if the taxation system were changed in this respect.

Attention should also be directed to the dangerous economic

effects of the tax on limited liability companies ("Körperschaftssteuer"), which appears to be too high and to be calculated in some cases in an arbitrary manner, because of the difficulties of valuation. We would add that, in our opinion, the financial stabilisation of Austria can only be considered definitely established when the financial relations between the Federation, on the one hand, and the Provinces and Communes, on the other, have been to a large extent reorganised.

A further obstacle to the influx of foreign capital is the fact that the balance-sheets of limited liability companies are not established on a gold basis or, at any rate, in terms of value which can be compared, so that it is difficult for foreign lenders to form an idea of the actual position of Austrian companies. Moreover, with the present system of taxes and balance-sheets expressed in paper crowns, it is impossible for a company with a pre-war capital to write off its plant. The obscurities of the present system involve a further danger of violent fluctuations on the Stock Exchange. The need for modifying this system has been accentuated by the fact that Germany, which is destined to become Austria's chief competitor in the near future, has already passed laws placing balance-sheets on a gold basis.

One obstacle to the restoration of foreign credit is the absence of a sound basis for mortgages on buildings. Such a basis will be found only after the establishment of those gradual modifications in the rent-restriction laws which are necessitated by present conditions.

Apart from the question of credit, the relation between home prices and foreign prices seems likely to prejudice the future development of Austrian industry. Certain industries have hitherto been able to keep going simply owing to the fact that prices in Austria were lower than world-prices; if, as we think likely, the equilibrium is now restored, it is probable that certain industries, banks and banking establishments which are not too sound, and which have in many cases sprung up as the result of the excessive monetary inflation, will disappear. This necessary elimination of artificial undertakings need not be regarded with apprehension.

It should be noted—and we would emphasise this point—that the shortage of liquid capital is by no means limited to Austria. This state of affairs may be seen in many countries, more especially

in the highly industrialised European countries. Generally speaking, the world demand for credits is considerably in excess of the supply, and it is only countries which offer the most favourable conditions to lenders that can hope to obtain all they want. Further, the prospects of the reparations question being settled would appear to open up to foreign capital a field of activity which has long been closed. The above considerations make it necessary to proceed with extreme caution in estimating to what extent Austria can expect to obtain foreign credits in the near future. It seems to us that feeling in Austria is at present rather too optimistic on this point. If such credits are desired, even on a modest scale, it is essential that all the internal conditions in Austria should be favourable.

The special purpose of our recommendations, which have been accepted by the Austrian Government, was to place economic life on a sound basis and thus help Austria's efforts to obtain the necessary credits.

Opinion among representatives of the business interests heard by us was divided as to whether or not it was expedient to introduce a new unit as a money of account; the paper money now employed is the cause of unnecessary accounting complications and tends to make the average man lose sight of the real value of money.

We are of opinion that it is highly desirable that a fresh monetary unit should be adopted and that the national currency should be fixed on a gold or gold-exchange basis, a state of affairs which already exists in practice, if not in form; and, while we do not recommend that too great insistence should be placed on this point, we suggest that it should be brought to the notice of the Austrian Government and the National Bank, and that, even if no immediate action is taken, the question should nevertheless not be lost sight of.

The last stage of the currency reform, begun in 1922, and the readjustment of company balance-sheets might, in our opinion, take place at the same time and thus serve definitely to stabilise the present position.

2. *Position as regards the Budget.*

We now return to a consideration of the position of the budget, which, in our opinion, should be dealt with in the light of our

conclusions regarding the economic situation in Austria and on the supposition that the improvements we have indicated have been carried into execution. We must consider not only whether the sums proposed for the year 1925 can be raised but also whether the burden which they impose upon Austria is not too heavy for the economic system of the country.

The Delegation of the Council which visited Vienna in the autumn of 1922 strongly urged that the Austrian Government should undertake to reduce its estimated expenditure for 1925 to an amount not exceeding 350 million gold crowns. At that time, absolute uncertainty prevailed in every department. The exact yield of taxation and Government revenue was unknown, and the figures available were valueless in view of the depreciation of the currency. Nor was it known what the yield of existing taxes would be once prices and exchanges were stabilised. Most uncertain of all, however, was the effect of stabilisation on the general economic life of the country.

That being the case, the Delegation wished to fix the maximum expenditure and the normal level of the budget at a very low figure. It also pointed out to the Government that, if experience showed that these very prudent estimates were below the real capacity of the country, it was for the Government to make proposals for their increase.

The Austrian Government referred to this statement when it asked the Commissioner-General in March last to submit to the Council, on behalf of Austria, a request for the modification of the original figures.

During the whole of 1923 and the first seven months of 1924, the actual half-yearly deficits were always lower than the estimates made in 1922, but such deficits represented expenditure and receipts considerably higher than were provided for in the scheme.

Thus, starting from an annual basis of 672 million gold crowns in October 1922, the expenditure of the Austrian Government rose in the first half of 1924 to 322 millions, including investments, and the estimates for the second half-year to 299 millions (that is, a total for the whole year of 621 million gold crowns), there being no prospect of these ever being reduced to the level of 350 millions. The reasons for this state of affairs have frequently been given; despite the introduction of real economies, which resulted in a reduction as compared with the 1922 expenditure, fresh expendi-

ture (adjustment of officials' salaries, adjustment of home prices to the world gold-price level, very liberal pensions arrangements, etc.) absorbed the greater part of the money saved.

The Financial Committee and the Commissioner-General have examined the details of the figures submitted by the Government; they arrived at the conclusion that the estimate as to revenue could be accepted, but that among the items of this revenue were certain taxes which it was proposed to reduce for economic reasons, and that this circumstance would probably reduce the estimated revenue by some 20 million gold crowns.

In view of the financial and industrial situation in Austria (including the adverse trade balance), the total amount of taxation ("Bund" and "Länder"), the new aspects of German competition (not only in the form of goods but in that of demands for foreign credits), we considered it necessary to direct the attention of the Austrian Government to the need for keeping the 1925 budget estimates for expenditure as low as possible.

After making certain expenses hitherto carried on the main budget a charge upon State undertakings (Posts, Railways)—as provided in the Protocols—and after reducing the original estimate for certain items, we suggest, in agreement with the Austrian Government, that the expenditure should be 545 million gold crowns, including 50 millions for investments and 495 millions for current expenditure. This is the amount we propose for adoption as the new budget basis in place of the sum of 350 millions fixed in 1922.

In studying the details of the estimated expenditure, we noted that the figures of the Austrian Government represented a considerable reduction, even greater than appeared at first sight, having regard to the present position; the sum of 545 millions includes increases in wages for the whole year, whereas the probable figure of 621 millions for 1924 is obtained by taking into account only the increase in salaries for part of the year.

As the estimated revenue, after the proposed reduction of taxes, is only about 510 million gold crowns, there would be a deficit of 35 millions (including investments).

In order to keep within the limits of expenditure fixed above, the Government contemplates continuing its work of reform. After considering the whole position, a series of measures, which are shown in the annexed Agreement, has been agreed upon.

In view of the progress already made in the work of reconstruction, the Commissioner-General was of opinion that certain modifications in the methods of control might be considered as soon as the new figures had been finally accepted by Parliament and the execution of the reforms had been provided for by administrative or Parliamentary decisions.

The Financial Committee readily agreed to these proposals, but pointed out that the system of control could not be abolished until the Council had decided that financial stability in Austria had been reached. In view of the Government's conviction that it would not need to exceed the provisions of a budget such as that proposed above, it is proposed that the new system of control, the conditions of which are laid down in the annexed Agreement, should be applied so long as the limits fixed are not exceeded. The Committee earnestly hopes that the Government, with the active co-operation of all the Austrian authorities, will succeed in carrying out all necessary measures of reform and that it will thus be possible for the new system of control to come into operation in the near future.

The Delegation of the Financial Committee and the Commissioner-General made a protracted study at Vienna, with the Austrian Government, of all the factors in the problem. Discussions on the subject were continued at Geneva in the Financial Committee. As a result, the Financial Committee and the Commissioner-General now have the honour to propose to the Austrian Committee of the Council the following Agreement:

B. AGREEMENT (with Annexes) [1].

[*Translation.*]

1. The Financial Committee draws attention to the fact that, according to the text of Protocol No. III, Art. 4, *ad* 5, " The functions of the Commissioner-General shall be brought to an end by a decision of the Council of the League of Nations when the Council shall have ascertained that the financial stability of Austria is

[1] This Agreement, with the preceding report, was accepted by the Council on September 16th, 1924, by unanimity of all its members, including, in accordance with Article 4 of the Covenant, Austria, represented by Monsignor Seipel.

assured, without prejudice to any special control of the assets assigned for the service of the loan ".

2. If the budget results for 1925 (including the " Rückstände " chargeable to that year) remain within the limits agreed upon with the Financial Committee;

If in all other respects, the measures approved by the Financial Committee and accepted by the Government, as specified in the two Annexes herewith, have been duly applied;

If the budget adopted for 1926 is based on the same total figures; and

If the general economic situation inspires sufficient confidence:

The Financial Committee would be able to recommend the Council to declare that financial stability had been established in conformity with the Protocols.

3. In view of the progress made towards reconstruction, as soon as the application of the measures laid down in the two Annexes herewith and approved by the Financial Committee has been assured, either by laws or by administrative decisions, with the exception of Point 7 in Annex I, and Points 6 and 7 in Annex II;

And so long as the Austrian Government does not require a liberation of the loan to cover its expenditure, except in the measure in which the second paragraph of Point 1 in Annex I contemplates liberations:

The Commissioner-General, in agreement with the Financial Committee, will be prepared to exercise control in the following way:

(*a*) He will not object to particular items of expense on the part of the Austrian Government or require modifications of the taxation system, except on the ground that the particular expense or feature in the taxation system is such (*e.g.*, by involving serious later commitments) as in his opinion to compromise the later progress of the scheme; subject to this reservation, the control shall be exercised in such a way as to verify whether the general limits of the budget are preserved, and to follow the execution of the measures recommended by the Financial Committee. All information of which the Commissioner-General may stand in need shall be supplied to him;

(*b*) The preliminary monthly budgets shall be communicated to the Commissioner-General, but his formal approval shall not be required;

(*c*) The Commissioner-General shall communicate to the Austrian Government the drafts of his monthly reports two days before sending them to the Council of the League of Nations, and measures shall be taken at Geneva to ensure their publication at as early a date as possible after the period which they concern.

Annex I.

The Austrian Government, in agreement with the Financial Committee, and with the Commissioner-General, declares its willingness to adopt the following measures, and pledges itself:

1. To limit expenditure in the estimates for 1925 to a maximum of 495 million gold crowns, plus 50 million gold crowns for investments, these to be maximum figures and to be binding on the Government.

Funds may be liberated by the Commissioner-General in so far as the Austrian Government remaining within the above limits may be unable itself to cover its expenditure, and in so far as its deficits do not exceed its expenditure on investments of a clearly productive character.

2. To reduce the "Banken- und Valutenumsatzsteuern" to a nominal charge, to reduce the rate of the "Körperschaftssteuer" to 25 per cent, and not to reimpose these taxes in any other form.

3. To carry out the reforms indicated in Annex II and to take all necessary steps to accelerate the reduction of the number of officials.

4. To assist the conduct of the enquiries proposed by the Commissioner-General into:

(*a*) The postal administration;
(*b*) The financial administration.

The details of these enquiries will be arranged between the Minister of Finance and the Commissioner-General.

5. Not to include bills in the Treasury figures until such bills have actually been cashed, and to fix the rate of discount on the bills subject to discount at least 1 per cent higher than the official rate of the National Bank.

6. To take all necessary steps to ensure that, when the State supplies State undertakings ("Betriebe") with money for carrying out investments, the State undertakings in question shall pay to the State reasonable interest and amortisation charges on such loans.

7. To take, before July 1st, 1925, all necessary steps for the organisation, on an autonomous basis, of all State undertakings which are not yet so organised, especially forests and salt-mines.

8. To take steps to ensure that the National Bank shall so conduct its discount policy as to maintain the stability of the crown, not only in its relation to gold, but also in its relation to goods

9. To take steps, in connection with the abolition of the "Banken- und Valutenumsatzsteuern", to conclude, if possible, an agreement with the private Banks under which these Banks will undertake to reduce their charges to customers, as soon as the above-mentioned taxes are repealed.

10. To modify the fiscal legislation in such a way as to facilitate the issue of bonds, particularly by reducing to 2 per cent at least the rate of the "Korperschaftssteuer" so far as regards the interest on bonds.

11. To encourage the introduction at an early date of balance-sheets expressed in terms of gold.

12. To draw the attention of the competent authorities to the desirability of establishing, at an early date, a legal relation between the Austrian crown and a given weight of gold

13 To take measures to permit free dealing in foreign exchanges.

14. To limit the amount for the payment of which silver coinage may legally be tendered.

15. To secure the creation of a small Executive Committee within the National Bank to deal with emergencies.

Annex II.

List of Reforms [1].

1. Expenses of representatives of the staff (B 5).
2. Reform of the agrarian administration (*Land- und Forstwirtschaft* 2).
3. Reform of the administration of immovable property belonging to the State (*Handel* 13).
4. Reduction of the officials of Committees entrusted with the administration of pensions for men disabled in the war (*Soz. Verw.* 2).
5. Effective control over the strict observation of legal working hours in the administrations.

Measures to be taken before July 1st, 1925.

6. Amalgamation of the Federal Administration with the administration of autonomous provinces in the provincial governments (*Landesregierungen*) (II 24).
7. Reduction in the number of members of provincial governments (II 23).

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1 The indications given in parentheses after 1, 2, 3, 4, 6 and 7 in this Annex refer to the corresponding chapters in the programme of reforms laid down in the Austrian Reconstruction Law of November 27th, 1922 (BGB. No. 343, Wiederaufbaugesetz).

C. COUNCIL RESOLUTION OF SEPTEMBER 16th, 1924.

The Council of the League of Nations:

Approves the joint report of the Financial Committee and the Commissioner-General[1], to whom it desires to express its appreciation;

It also approves the agreement [2] concluded with the Austrian Government and takes note of the resolution of the Committee of Control.

The Council notes with satisfaction that a unanimous agreement has been reached as a result of the enquiry at Vienna, undertaken in accordance with the Council resolution of June 16th, 1924.

The Council is glad to note that, after the examination of the present financial position of Austria, it is the unanimous view of the Financial Committee and the Commissioner-General that the level at which the budget can be properly balanced is considerably higher than was anticipated in 1922, and that the sacrifices which have been and will be involved in Austria are less than was contemplated in the original scheme, then framed by the League and accepted by Austria; and that the Austrian Government has undertaken to take the necessary measures to secure budget equilibrium at the above level.

The Council approves the conditions which are recommended as those under which the system of budget control can properly be (*a*) modified at an early date, and (*b*) subsequently terminated.

The Council hopes that the decisions required, in order to enable the system of budget control to be modified, may be taken forthwith.

Desiring, moreover, to terminate the control of the Austrian budget as soon as is permitted by the conditions of Article 4 of Protocol III and the responsibilities which it has assumed towards the subscribers to the Austrian reconstruction loan under that article:

The Council earnesty hoples that the progress with the reforms and the economic situation will be such as to fulfil the conditions

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1 See 8. A. above.
2 See 8. B. above.

set out in the Agreement within the shortest period of time therein indicated. [1]

9.

FEBRUARY-MARCH 1925.

A. REPORT OF FINANCIAL COMMITTEE, FEBRUARY 14th, 1925.

Dr. AHRER, the Austrian Minister of Finance, accompanied by Dr. GRUNBERGER, the Director of the Section for Foreign Affairs of the Federal Chancellery, and Dr. ZIMMERMAN, the Commissioner-General for Austria, were present. The Austrian representatives and the Commissioner-General made statements to the Committee with regard to the progress of the plan of reconstruction, including the execution of the Agreement of September 1924. A note by the Commissioner-General as to the execution of the latter Agreement is contained in the Appendix. The observations made by the Committee during the meeting were summarised as follows:

The Committee note that a number of the measures required under the September Agreement, not including, however, all the more important measures, have now been taken. They observe that the Budget for 1925 has not yet been passed by Parliament, and that the laws required to give effect to certain of the financial and fiscal reforms, while presented to Parliament, have also not yet been passed (for example, the diminution of the *Körperschaftssteuer*, which should have been passed before the end of 1924). They observe, too, that, in general, the administrative reforms have not yet been effected. The Committee desire to express their sense of the extreme importance of the prompt and complete execution of the remaining requirements of the Agreement.

The Committee must remark, however, that the specific and detailed requirements of the September Agreement in no way

[1] The Council also discussed the financial reconstruction of Austria at its Meeting of December 8th, 1924, but took no resolution. (See *Official Journal*, February 1925, page 122.)

modify those provisions of the Protocol and other agreements which are not expressly dealt with.

In this connection, the Committee note that the provision in 6 (*c*) of Protocol III, viz.:

> "The Bank should be responsible for the cash transactions of the State, and should centralise the Government receipts and payments, and should furnish periodical financial statements at the dates and in the form which may be determined in agreement with the Commissioner-General",

has not been given effect to by the Austrian Government.

They feel bound to press the Government strongly to take immediate steps to give effect to this provision, the more because the failure to establish the system seriously impedes the efficiency of the system of control and the success of the plan of reconstruction. This action will result in all resources of the Austrian Government being centralised under the control of the Commissioner-General.

In the next place, the Committee notice that the Austrian Ministry of Finance is still not organised in a way to enable it to exercise adequate control over the spending Departments. A reform of this character has been urged upon the Government from the very beginning of the reconstruction period in 1922.

In addition, the Committee desire to point out the great advantage of the collaboration of the Cour des Comptes in controlling the accounts both not only of the State Departments but also of the State enterprises, including the railways, and the enterprises in which the State has an important financial interest.

The Committee feel also sure that it should be possible, with the good-will of the Government, to arrange for the willing co-operation of the Cour des Comptes with the Commissioner-General.

The Committee would point out with regard to the last three paragraphs:

(*i*) That the Commissioner-General's organisation has intentionally been established on a modest basis because it was understood that he would have the cordial and effective collaboration of the Austrian controlling institutions. It need hardly be remarked that an effective control by the Commissioner-General without the help of such collaboration

would involve a large and expensive organisation under his own direct orders.

(*ii*) It is also of the utmost importance that Austria should be developing, during the period of the Commissioner-General's control, a system which can give an assurance of a proper control of expenditure by the Austrian Government after his control shall have come to an end. For this purpose, effective powers of control by the Treasury, as in other countries, are obviously necessary.

(*iii*) As from January 1st, 1925, the loan funds can only be issued to cover deficits due to productive capital expenditure, and it is absolutely necessary, in order that the Commissioner-General may take any issue, that he should have not only a programme of such expenditure, but verified accounts of the progress of approved schemes.

The Committee are glad to understand that the Austrian Government is about to renew negotiations with the provinces as to administrative, financial and fiscal relations of the State and the Provinces.

The Committee regard this as a question of great urgency and they wish the Government all success in the negotiations. They think it well, at this stage, to point out that one of the principal objects of the Agreement of September was to limit the budget expenditure of the State to its fiscal capacity. The Committee have frequently pointed out the serious effects upon the economic life of the country of taxation which would strain its fiscal capacity, having regard to the total burdens weighing on the economic life of the country. They trust therefore that the negotiations, whatever be their result, will not have the effect of any increased encroachment on the present taxable resources of the State.

The Financial Committee attach the greater importance to all the above measures of reform because, in addition to their direct effect upon the restoration of Austria, they will increase the confidence of the external world upon which the successful development of the economic life of the country so largely depends.

. . . .

The Austrian and Hungarian National Banks.

The Committee also had the advantage of conversations with Dr. Reisch, President of the Austrian National Bank, accompanied

by Dr. BRAUNEIS, General Manager, and Dr. van GYN, Adviser of the Bank, and with M. POPOVICS, President of the National Bank of Hungary.

The Committee consider that personal contact from time to time between the presidents of the banks and members of the Committee will be a useful assistance to the future progress of reconstruction in the two countries.

. . . .

The Financial Committee took note of the changes in Article 86 of the Statutes of the Austrian National Bank, by which the basis for the issue of banknotes is enlarged by including bills drawn in foreign currencies which, owing to their insufficiently stable character, are not eligible as cover under Article 85. The Financial Committee are glad to be informed that the Austrian National Bank intends to make very sparing use of this additional right.

The Financial Committee view with satisfaction the exclusion from the gold and foreign exchange reserve of the Austrian National Bank of foreign currencies which flow into the Bank by way of the combined spot and forward transactions in foreign exchange (*Kostgeschäft*).

The Financial Committee entirely agree with the action of the National Bank in undertaking exchange business, whether spot or forward. They have, however, been impressed by the rapid expansion of the *Kostgeschäft* transactions, which had counterbalanced the decrease effected in the volume of bills discounted by the Bank. They were glad to note that their view and that of the Austrian National Bank coincide as to the monetary influence of the *Kostgeschäft*, the credit created by this means being as much a part of the general credit structure as are the discounts acquired by the National Bank. While expansion and contraction in the latter case are controlled by a proper bank-rate policy, the former should be controlled by raising and lowering the rate charged for the *Kostgeschäft*.

The Financial Committee heard with satisfaction that the Austrian National Bank scrutinises carefully the nature and quality of the credits it grants, not only by way of its purchase of discounts (in accordance with the provisions of the Statutes) but also by way of the *Kostgeschäft*, with a view to confining these credits to

strictly economic purposes. The Financial Committee note that the exceptional credits granted by the Austrian National Bank as a consequence of last year's Stock Exchange crisis have already been reduced appreciably and that the Bank will continue its efforts in that direction with a view to their complete liquidation at the earliest possible moment.

The Financial Committee were glad to hear that the Austrian National Bank intends to propose to the Austrian Government the abolition of the restrictions which are still in existence with regard to transactions in foreign exchange.

The Committee desire to express their opinion that nothing will so much stimulate confidence in the stability of the Austrian exchange as the *complete* liberation of the Austrian foreign exchange market from all restrictions.

They note, therefore, with satisfaction that the Austrian National Bank envisages the maintenance of the foreign exchange clearing as only a transitional measure, and intends to abolish it in due course.

. . . .

The Committee wish to state that they consider that the best means for ensuring monetary stability is an active co-operation between the central banks of the different countries of the world, as contemplated in the resolutions of the Conference of Genoa. For this reason, the Committee greatly appreciated hearing from the Presidents of the Austrian and Hungarian National Banks that they were in entire agreement with this policy and were prepared to give it their cordial co-operation.

Appendix.

Extract from a Memorandum addressed by the Commissioner-General for Austria to the Financial Committee.

February 4th, 1925.

My Twenty-second, Twenty-third, Twenty-fourth and Twenty fifth Reports (the last of which deals with the period from

December 15th, 1924, to January 15th, 1925) indicate the various measures adopted by the Government and Parliament as a result of the meetings of the Financial Committee in September last.

It will therefore be seen that the Government has certainly shown proof of its intention to carry out the Geneva Agreement as soon as possible. Various points have already been satisfactorily dealt with, but it cannot be denied that effect has still to be given to other recommendations, some of which are highly important.

In short, the following provisions of the Agreement [1] still await execution:

(1) The 1925 budget has still to be voted.

(2) The *Körperschaftssteuer* has not yet been reduced to 25 per cent.

(3) The measures intended to expedite the *Abbau* have yet to be put into effect. The work of preparing these measures has now been begun by a series of weekly conferences (referred to below) under the chairmanship of the Chancellor. At these meetings the reforms to be carried out will be discussed.

(4) Before July 1st, 1925, the forests and salt-mines must be transformed into autonomous organisations.

(5) Free dealing in foreign exchange must be re-established.

(6) The law on gold balance-sheets has yet to be voted.

(7) The seven points of Annex II of the Agreement of September 16th, 1924[1], have still to be carried out (Nos. 6 and 70 before July 1st, 1925). The Chancellor has begun to take preparatory steps in connection with working hours in the public services; that is to say, this question will be discussed at the weekly conferences.

I had sincerely hoped that by January 1st the conditions making it possible to reduce the control would have been fulfilled, but the above shows that this was not the case. In the meantime, I am communicating my draft monthly reports to the Minister of Finance, and, as far as possible, am taking his observations into account.

[1] See 8. B. above.

B. COUNCIL RESOLUTION OF MARCH 10th, 1925.

The Council of the League of Nations,

After having considered the 24th, 25th and 26th monthly reports of the Commissioner-General at Vienna:

Takes note of the report of the Financial Committee [1] on the work of its seventeenth session, which has been presented to the Council after being discussed before the Austrian Committee of the Council:

Adopts the opinions and the recommendations of the Financial Committee, and attaches the highest importance to their prompt execution.

10.

JUNE 1925.

A. REPORT OF FINANCIAL COMMITTEE OF JUNE 8th, 1925.

Electrification of Austrian Railways.

The Committee have examined the proposals made by the Austrian Government in the Chancellor's letter of June 2nd to the Commissioner-General for financing the electrification of the Salzburg–Innsbruck line, including its branch lines Wörgl–Kufstein and Innsbruck-Brenner, from the *reliquat* of the reconstruction loan.

The allocation of a certain sum for investment purposes which are agreed to be strictly productive *(nettement productifs)* has already been allowed this year. Being of opinion, in agreement with the Commissioner-General, that the electrification scheme now before them may properly be considered to be of this character,

[1] See 9. A. above.

the Committee, provided that the ordinary budget is in equilibrium, recommend the allocation from the loan of a maximum sum of 88 million gold crowns; such allocation would be made by payments from time to time as may be requested by the Minister of Finance for the expenditure on the electrification scheme in question over a period of three years.

B. COUNCIL RESOLUTION OF JUNE 9th, 1925.

I. The Council:

1. Notes that a request has been received from the Austrian Government that a non-political enquiry into the present economic conditions in Austria should be made as soon as possible by a few experts of recognised scientific competence in order to ascertain the influence which these conditions may have upon the work of financial reconstruction undertaken under the auspices of the League; that the members of the Austrian Committee have stated themselves to be in favour of such an enquiry, and have approved the appointment of Mr. W. T. LAYTON and Professor Charles RIST to conduct it;

2. Approves the action taken by the Austrian Committee, and expresses the hope that the results of the enquiry may prove to be of substantial benefit to Austria.

II. The Council:

Takes note of the 27th, 28th and 29th reports of the Commissioner-General.

III. The Council:

Having considered the report of the Financial Committee [1] with regard to the proposals of the Austrian Government for financing the scheme for electrifying the Salzburg–Innsbruck railway line (including certain branch lines) from the *reliquat* of the Reconstruction Loan;

And noting that the Financial Committee, in agreement with the Commissioner-General, considers that the scheme is of a strictly productive character:

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[1] See 10. A. above.

Approves the recommendation by the Financial Committee of an allocation from the loan of a maximum sum of 88 million gold crowns over a period of three years, under the conditions stated in the Financial Committee's report.

11.

SEPTEMBER 1925.

A. SUMMARY OF REPORT[1] BY MR. LAYTON AND PROFESSOR RIST ON THE ECONOMIC SITUATION OF AUSTRIA.

The outstanding fact of the experts' report is that the economic situation of Austria is steadily improving and that Austria is sharing in the general recovery from the after-effects of the war. Production has steadily risen since the stabilisation of 1923; output on the whole being better in 1924 than in 1923 and still better at the present time than it was last year. It is satisfactory that this has occurred in spite of the financial crisis of 1924, which failed to cause a serious set-back to industrial recovery.

In spite of the severe unemployment of the winter, wages have risen substantially during the last twelve months and the consumption of commodities in common use shows that there has been an improvement in the standard of living. It might seem that there is an apparent contradiction between this statement and the fact that unemployment was higher in 1925 than in 1924, and indeed more severe than at any time since the war, but the explanation is that since the stabilisation of the currency there has been a strong tendency to dispose of superfluous work-people and employees and to re-organise the factories with a view to diminishing the cost of production. In other words the increase of unemployment is a sign not only of deterioration in the economic position but of improvement. But although the output of industry as well as that of agriculture is slowly improving it is still very

[1] Document C. 440. M. 162. 1925. II.

substantially below the pre-war level. Austria has still a long way to go before her economic conditions are normal, but the steady movement of the last two years is in the right direction. Before passing from the question of unemployment, however, it is to be observed that part of the unemployment of Austria is likely to be permanent for a considerable time to come. The analysis of the figures given in the report shows that tens of thousands of those who are chargeable to the insurance fund are in occupations which are over-stocked in proportion to Austria's present needs. The persons dismissed from Government employment, railways, commercial houses, etc., represent a permanent surplus arising from the fact that Vienna is no longer the capital of a great empire. A large number of her middle classes also have lost their occupations as well as their financial resources. For them the present Austria offers no economic outlet.

While, therefore, all indications show that Austria is recovering, a convalescence succeeds very severe illness. The problem for Austria is whether the recovery of her economic life to a normal level will be very protracted or whether it can be hastened in any way. This largely depends on external commercial conditions. In this connection the central fact is that whereas before the war Austria formed part of a large self-contained unit she constitutes to-day a small country unable to supply her own food and raw materials and dependent upon the export of her goods and services for the means of livelihood. Unfortunately it is exceptionally difficult for Austria to play this rôle owing to the fact that she is surrounded by high tariff barriers and particularly in those directions in which she should find her natural markets. In this connection the report points out that the tariffs of Western Europe are not on the whole higher than before the war and in some cases are even lower — when account is taken of the higher level of general prices, and that their average level varies between 10 and 20 per cent in relation to the value of commodities. The tariffs of Central Europe, on the other hand, are on a much higher scale, the tariffs varying between 20 and 50 per cent. In other words the protectionism of Central Europe is run to extreme lengths compared with that of the larger commercial countries of Europe. The result has been a very great shrinkage of the trade of Austria with the succession States and though the foreign trade figures show that some compensation has been obtained in markets

further afield, it is impossible that the latter should prove an adequate substitute for the lost markets of contiguous countries.

The other great handicap under which Austrian industry labours is a lack of capital. Austria-Hungary was always a capital importing country and interest rates were higher than in Western Europe. The result of the war and subsequent inflation have reduced a large amount of Austria's own capital and with her present reduced production it is difficult for her to replace this from her own savings. Rates of interest are high compared with those of her competitors, being substantially above even those of Germany. These rates are, moreover, exaggerated by the fact that her whole banking apparatus, whose staffs were enormously swollen during the inflation boom, is too large for her present needs, and the cost of its upkeep is a substantial charge on the nation's production. These extreme rates are, however, falling and the famine of capital is to some extent being relieved by a fairly abundant supply of credit from foreign countries. These credits, which are mostly for short terms, are at more moderate rates of interest, and are exercising an influence on the internal discount rates. The large Viennese banks with one exception have weathered the storm.

Their resources are not very liquid but they have maintained their sovereignty thanks largely to their very considerable foreign resources. The National Bank of Issue established by the reconstruction scheme has built up a strong position in the last three years and the note issue is to-day backed by the foreign exchange to the extent of 55, compared with the minimum of 20 per cent laid down in the statutes of the Bank.

It cannot be too strongly emphasised that if the improvement which the experts have recorded is to continue, the foreign credits which Austria has obtained must be maintained. For this purpose four essential conditions must be fulfilled. In the first place, Austria's creditors and the world generally must have absolute confidence in the stability of the crown. In the second place, there must be confidence in the monetary policy of the National Bank which must be strong enough to prevent any recrudescence of the speculative movement of 1923 or 1924. Thirdly, there must be confidence in the standing of the large banking institutions of Vienna whose influence extends over a very wide field in Central and South-eastern Europe. Finally,

there must be confidence in the internal political conditions of the country. The Report contains reassuring evidence on each of these four points.

Doubt has sometimes been expressed whether the internal conditions affecting Austria's industries are such as to permit them to compete effectively in the international market. The report contains a considerable amount of information on these aspects of the problem, from which the chief conclusions drawn are the following:

(*a*) The output per head of the workers in the factories has greatly improved since the stabilisation in comparison with the very bad conditions of 1919, 1920 and 1921. It has now recovered to a point which in many cases is equal to pre-war output and in some cases even higher.

(*b*) The burden of a social insurance (against unemployment, sickness and accidents, etc.) is heavy and a cause of much complaint. But in proportion to wages paid, it only amounts to approximately the same percentage as in Germany and Czechoslovakia, when unemployment is moderate. When unemployment is abnormally high, as was the case last winter, the percentage rose above the German and Czechoslovak figure.

(*c*) The burden of taxation is also high but it is not so great a percentage of the national income as in Germany or in Italy. In this connection the Ministry of Finance stated to the experts that in their opinion the level of expenditure had reached its maximum. A similar statement was also made in respect of the municipal expenditure of Vienna by the authorities of the city.

In any case the experts do not think that the level of either the social charges or of taxation is an element which is affecting vitally the rate of Austria's economic recovery.

In short, although there are a number of adjustments which might still be made internally, the factor which will decide whether Austria remains in poverty or is able to recover to a more normal standard of comfort, is her ability to sell her goods abroad. It has been suggested that it is inherently impossible for a country like Austria to continue to exist in the modern world. The case of Switzerland suggests that this is too hasty a conclusion.

Switzerland with smaller natural resources than Austria and even more dependent upon imports of food, is a country in which the average wealth is perhaps the highest in Europe. Austria has a long road to travel and a great deal of re-adaptation to perform before she can get into an assured position of economic independence comparable to that of Switzerland. There is, however, every reason to think that her economic recovery will be rapid if the tariff barriers of Central Europe are appreciably reduced.

B. REPORT OF FINANCIAL COMMITTEE OF SEPTEMBER 9th, 1925.

Introduction.

The Financial Committee have studied the questions referred to them by the Austrian Committee of the Council on September 4th, and in the light of the Thirtieth, Thirty-first and Thirty-second Reports of the Commissioner-General, the report of Mr. Layton and Professor Rist on the economic situation of Austria, and further information supplied to them orally and in writing by the representatives of the Austrian Government, by the Commissioner-General and by the two economists above mentioned.

The Committee have the honour to submit the following report in reply to the specific questions referred to them. Part I gives the replies to the questions relating to the stability of the currency, the budget equilibrium and the execution of the Agreement of September 1924, and Part II constitutes the reply to the further question as to the measures to be taken with regard to replacing the present control and the date at which they should come into force.

The attached report was drawn up in agreement with the Austrian delegation.

For the purpose of promoting the further development of Austria, especially as regards her credit position, and in order to facilitate the obtaining of long-term credits, the Financial Committee are of opinion that it is very desirable to maintain confidence in the Austrian National Bank and in the general Austrian economic situation, even after the termination of the control.

The Committee therefore recommend: (1) that the Adviser to the National Bank should remain in office for three years after the definitive termination of control; and (2) that the Council of the League should, by a three-quarters majority vote — Austria abstaining — within a period of ten years, again re-establish control in the unlikely event provided for in Article 11 of Protocol II of the proceeds from the assigned revenue being insufficient to cover the service of the loan or of the equilibrium of the budget being seriously endangered.

Report.

I.

The Financial Committee declare:

1. *Stability of the Currency.*

The Austrian currency has been stable since the League of Nations Reform Scheme was drawn up in the autumn of 1922.

2. *Budget Equilibrium.*

The 1923 budget showed a deficit, which, however, was less than that estimated. The ordinary budget for 1924 showed a surplus, which was devoted to covering a substantial part of the capital expenditure. In view of the figures at present available, a similar result is expected as regards the budget of 1925. The level at which these results have been reached has been higher than was originally hoped. A part of the capital expenditure has been, and is being, met from the League Reconstruction Loan in accordance with the September Agreement.

3. *Execution of the Agreement of September* 1924.

As regards the carrying-out of the Agreement of September 1924 (detailed notes shown in Annex), two very important conditions cannot yet be fulfilled, since the 1925 budget year only terminates in four months' time and the 1926 budget cannot yet be voted. The detailed report, however, shows substantial progress

made in the execution of the Agreement. These facts, taken in conjunction with the experts' report, which shows the economic progress made by Austria, afford the Financial Committee an opportunity of congratulating Austria on the results obtained.

II.

The Financial Committee, without prejudice to the provisions of the September 1924 Agreement, accordingly propose that:

(*a*) The Council of the League of Nations should take note of the introduction on August 11th, 1925, of the modified control contemplated in the September Agreement. The effect of this modification is that the Commissioner-General no longer intervenes in the details of the budget or in expenditure on specific items but limits himself to the supervision of the general budget position.

(*b*) The Council of the League should authorise the Financial Committee to discuss at their next session in December, with the Austrian Government and the other authorities concerned, the precise modalities under which, after control has ceased, the provisions of the Protocols of 1922 should be carried out as regards:

(1) The management of the assigned revenue account;

(2) The control of the expenditure of the remainder of the Reconstruction Loan, which, under Protocols II and III, is under the control of the Commissioner-General;

(3) The mode of communication between the Government and the Committee of Control (which, during the period of control, takes place through the intermediary of the Commissioner-General).

(*c*) Having regard to the statement of the Austrian Government concerning the previous and the anticipated results for 1925, the control of the Commissioner-General as from January 1st, 1926, should be limited to a control over the assigned revenues and over the expenditure of the remainder of the Reconstruction Loan, without prejudice to the powers of the Commissioner-General to obtain, as in the past, the information, accounts and figures which he may deem

necessary. From this date the Commissioner-General is released from the obligation to reside permanently in Vienna.

(*d*) After the passing of the 1926 budget within the limits of the present estimates and the submission of the closed accounts for 1925, as prepared by the Audit Office, the control exercised by the Commissioner-General under the Geneva Protocol should be terminated.

Annex.

Position in regard to the Execution of the Agreement of September 1924.

Annex I to the Agreement of September 1924.

Point 1. To limit expenditure in the estimates for 1925 to a maximum of 495 million gold crowns, plus 50 million gold crowns for investments, these to be maximum figures and to be binding on the Government.

Action taken. The budget for 1925, which was kept within these limits, was passed on March 24th, 1925.

The actual annual expenditure, calculated on the basis of the closed accounts for the first six months of 1925, is 570.21 million gold crowns, plus 51.33 million gold crowns for investments.

Point 2. To reduce the "Banken- und Valutenumsatzsteuern" to a nominal charge, to reduce the rate of the "Körperschaftssteuer" to 25 per cent, and not to reimpose these taxes in any other form.

Action taken. The "Banken- und Valutenumsatzsteuern" were reduced to a nominal charge by a law dated October 29th, 1924.

The "Körperschaftssteuer" was reduced to 25 per cent by a law dated April 1st, 1925.

Point 3. To carry out the reforms indicated in Annex II and to take all necessary steps to accelerate the reduction of the number of officials.

Action taken. For the points in Annex II see below.

As regards the necessary steps for accelerating the reduction of the number of officials, the following measures have been taken:

A law renewing the provisions of the Reconstruction Law on this question was passed on April 3rd, 1925.

The Minister of Finance recently issued a decree for the reorganisation of the Ministries. The results of this reform in connection with the reduction of the number of officials in the central administration have yet to be seen.

Point 4. To assist the conduct of the enquiries proposed by the Commissioner-General into: (*a*) the postal administration; (*b*) the financial administration.

The details of these enquiries will be arranged between the Minister of Finance and the Commissioner-General.

Action taken. The enquiry into the postal administration has been carried out. The report of the Belgian experts is only being put into effect very slowly.

The enquiry into the financial administration has not been held, as the Commissioner-General has been unable to find an expert.

Point 5. Not to include bills in the Treasury figures until such bills have actually been cashed, and to fix the rate of discount on the bills subject to discount at least 1 per cent higher than the official rate of the National Bank.

Action taken. By a decree of September 20th, 1924, the Minister of Finance fixed the rate of discount for Treasury bills subject to discount at 16 per cent, *i.e.*, 1 per cent higher than the official rate of the National Bank.

By a decree issued by the Minister of Finance on October 16th, 1924, Treasury bills were excluded from the Treasury figures as from October 1st until such time as they were actually cashed.

Point 6. To take all necessary steps to ensure that, when the State supplies State undertakings ("Betriebe") with money for carrying out investments, the State undertakings in question shall pay to the State reasonable interest and amortisation charges on such loans.

Action taken. These principles have been fully adhered to in the budgets for 1925 and 1926.

Point 7. To take, before July 1st, 1925, all necessary steps for the organisation, on an autonomous basis, of all State undertakings which are not yet so organised, especially forests and salt-mines.

Action taken. The *State forests* were organised on a more or less autonomous basis by a law dated August 10th last. This reform is not entirely satisfactory.

The *salt-mines* were constituted as an apparently autonomous undertaking by a decree dated August 26th last.

Point 8. To take steps to ensure that the National Bank shall so conduct its discount policy as to maintain the stability of the crown, not only in its relation to gold but also in its relation to goods.

Action taken. In one year (from the end of August 1924 to the end of August 1925) the National Bank has reduced its holdings of bills from about 330 million schillings to about 83 millions. The general wholesale index number, which in September 1924 was 19,373, was 18,817 in August 1925.

Point 9. To take steps, in connection with the abolition of the "Banken- und Valutenumsatzsteuern", to conclude, if possible, an agreement with the

private banks under which these banks will undertake to reduce their charges to customers as soon as the above-mentioned taxes are repealed.

Action taken. The Minister of Finance has obtained the required reduction on the repeal of the two taxes above mentioned (see under Point 2 above).

Point 10. To modify the fiscal legislation in such a way as to facilitate the issue of bonds, particularly by reducing at least to 2 per cent the rate of the "Körperschaftssteuer" so far as regards the interest on bonds.

Action taken. Carried out by the passing of the law of October 29th, 1924.

Point 11. To encourage the introduction at an early date of balance-sheets expressed in terms of gold.

Action taken. Carried out by the passing of a law on the subject at the beginning of June 1925.

Point 12. To draw the attention of the competent authorities to the desirability of establishing, at an early date, a legal relation between the Austrian crown and a given weight of gold.

Action taken. By the law of December 20th, 1924, the schilling was introduced, as from January 1st, 1925, and its value was fixed at a given weight of gold.

Point 13. To take measures to permit free dealing in foreign exchanges.

Action taken. Carried out by the issue of a decree of the Minister of Finance of March 23rd, 1925.

Point 14. To limit the amount for the payment of which silver coinage may legally be tendered.

Action taken. This was done when the law concerning the introduction of the schilling was passed.

Point 15. To secure the creation of a small executive committee within the National Bank to deal with emergencies.

Action taken. This proposal was accepted by the General Assembly of the National Bank on November 6th, 1924, and was approved and voted by Parliament at the end of December 1924.

Annex II to the Agreement of September 1924.

Point 1. Expenses of representatives of the staff.

Action taken. By a decree dated April 10th, 1925, the Government decided that, as from January 1st, 1925, the salaries and general costs in connection with representatives of the staff of the Federal Administrations were to be borne by the employees. The decree has not been applied to the army, the police and the gendarmerie.

Point 2. Reform of the Agrarian Administration.

Action taken. By virtue of the new constitutional laws which came into force on August 10th last, the agrarian authorities have become provincial authorities. A 12-per-cent reduction of the staff is contemplated for 1926.

Point 3. Reform of the administration of immovable property belonging to the State.

Action taken. The Finance Minister has communicated on September 5th, 1925, the decree concerning this reform.

Point 4. Reduction of the staff of committees entrusted with the administration of pensions for men disabled in the war.

Action taken. The staff of these committees has been reduced from 2,037 on October 1st, 1922, to 771 on August 1st, 1925. Although this number is still too high, any further reduction meets with objection on the part of the disabled men.

Point 5. Effective control over the strict observation of legal working hours in the Administration.

Action taken. The decree of the Federal Government of March 7th, 1925, which, however, has not proved satisfactory.

Point 6. Amalgamation of the Federal Administration with the Administration of Autonomous Provinces in the Provincial Governments.

Action taken. — This reform has been carried out.

Point 7. Reduction in the number of members of Provincial Governments.

Action taken. Two provinces only have reduced the number of the members of their Governments.

C. COUNCIL RESOLUTION OF SEPTEMBER 10th, 1925.

The Council adopts the proposals contained in the report of the Financial Committee[1], including the recommendations contained in the introduction to this report as supplemented by the remarks of the Chairman of the Financial Committee.

It takes note of the declaration of the Austrian Chancellor and expresses the hope that the measures contemplated may be carried into effect.

The Council expresses its satisfaction that the financial situation of Austria has made it possible to take this decision and congratulates the Government and the Commissioner-General.

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1 See 11. B. above.

12.

DECEMBER 1925.

A. REPORT OF ECONOMIC COMMITTEE OF DECEMBER 5th, 1925.

Having been invited by the Council of the League to examine the data and conclusions contained in the Report on the Economic Situation of Austria, submitted to the Council by Mr. Layton and M. Rist, the Economic Committee proceeded, with the help of these experts and of Dr. Schüller, representative of the Austrian Government, to investigate the question in detail with a view to discovering the most effective means which could be employed to further Austria's efforts towards economic reconstruction. The facts and considerations set out in the report of Mr. Layton and M. Rist emphasise in particular the danger resulting, on the one hand, from the large deficit in the balance of trade and, on the other, from a new increase in unemployment, in respect of which an improvement had been recorded in the summer of 1924.

It is true that the deficit in the balance of trade during the first six months of 1925 was nearly 50 per cent less than the deficit during the corresponding period of 1924; this improvement, however, is due almost exclusively to the diminution in imports, and, although there is a slight tonnage increase in exports, the value of these is virtually equivalent to what it was last year. In order to ascertain, however, whether the unemployment was or was not due to this deficit in exports, the Committee thought it advisable, in the first place, to enquire into the conditions of production in Austria, and, secondly, to consider the question of markets. It would obviously be useless to demand easier access for Austria to foreign markets if her products were not able to bear the competition in those markets of the products of other countries.

As regards production, the Committteee has examined in succession the question of raw materials, the question of wages, the question of fiscal and social burdens, the question of working

capital funds and the credits required to maintain them, and finally the question of equilibrium between the different branches of the nation's economic activity.

* * *

While recognising that what still weighs down Austrian production is above all the dearness of money and the difficulty of obtaining credits, the Economic Committee has been able to verify the conclusions of the Layton-Rist report as regards the progressive return of Austrian industrial production to conditions which would enable Austrian products to compete with those of most other countries in international markets.

The Committee has also verified the accuracy of the statement contained in the experts' report to the effect that the deficit in Austria's trade balance is, to a large extent, due to the necessity for importing foodstuffs to an extent equal to one-third of the total imports of the country. The Committee realises that this deficit in the trade balance could be reduced if the productivity of agriculture in present-day Austria were raised to the pre-war level, or even to a higher level.

In order to achieve this end, an appreciable amount of long- and short-term credits is essential, long-term credits being necessary in particular in order to renew the supply of live-stock, tools, manures and farm buildings, etc. The Austrian farmers are, in the main, peasant proprietors; they have land but no money. Practically speaking, they are unable to obtain any long-term credits. Even in the case of short-term credits, they have to pay an excessive rate, and there is very little money available even at this rate. This is the result of the extreme reduction in Austria's savings to-day as compared with pre-war savings.

The intensification of the agricultural yield by means of a credit organisation seems to the Economic Committee likely to help, in the more or less near future, in reducing the widespread unemployment from which Austria is suffering. Doubtless other partial remedies may also be found in general measures calculated to diminish the burdens and increase the efficiency of production. But the operation of all these remedies will be gradual and the

Committee feels that other solutions should not be neglected, as, for example, the increase of emigration under suitable conditions. The Committee desires to express the hope that, in case the Austrian Government desires to develop emigration for this purpose, countries in which labour is wanted and where there are no legal obstacles will take such steps as they consider best suited to facilitate that emigration.

Nevertheless, the resumption of work in Austria depends mainly upon the solution of the problem of markets. Austrian industry is largely an export industry and, as is pointed out in the Layton-Rist report, one of Austria's most urgent needs is to find markets for her goods as soon as her conditions of production enable her to place her industrial products on foreign markets in approximately the same conditions as her competitors.

The problem of the markets which are indispensable for the reconstitution of properous economic conditions in Austria does not appear to the Economic Committee to present the same urgency in regard to all the world markets; those of which Austria stands most in need are the markets of the Succession States or of the territories detached from the Old Monarchy, where Austrian products used to be admitted free of duty and from which Customs barriers arising out of the establishment of political frontiers now debar them.

The establishment of Customs obstacles is of course an inevitable consequence of the territorial rearrangements, and, whatever the tariff or trade policy of the Succession or Cessionary States of the Old Austria-Hungary may be, the new Republic of Austria cannot hope to re-establish for its exports the conditions which prevailed under the system of economic unity of the Old Monarchy. The object of the Committee, however, has been to discover means by which the crisis of markets from which Austria is suffering might be lessened; it has been obliged to devote particular attention to those markets which used to absorb by far the greater proportion of Austrian exports and to examine in the most exhaustive manner the reasons why these markets have up to now remained difficult of access for Austrian products. Among these reasons attention must be drawn in the first place to the diminution in the purchasing power of these markets, consequent upon the economic disturbances due to the World War. Mention must also be made of the very natural desire of the States which have succeeded to the

territories of Old Austria-Hungary to create for themselves an independent economic life, where hitherto they had been associated in a single system of production with the rest of the Old Monarchy. This desire has indeed found expression as a result of the war in most countries, whether involved in the conflict or not. As was to be expected, however, it has sometimes found expression in a particularly aggravated form in certain of the divided or ceded territories, involving in some cases over-production or the artificial development of industries which are likely to become a burden rather than a source of strength to the country concerned.

On the other hand — partly owing to the above-mentioned tendency, partly owing to the general revival throughout the world of the protectionist spirit arising directly or indirectly from the war — many States, and especially some of those which formerly were in whole or in part free markets for Austrian products, have pursued a tariff policy which, however it may be explained by the exceptional economic and financial difficulties to which these countries were exposed, offers at present a very grave impediment to the flow of Austrian exports.

These difficulties have been aggravated by the fact that in many cases excessive rates of duty have been intentionally imposed with a view to tariff bargaining, for experience has shown that such rates, though only introduced for the purpose of reduction by negotiation, are often regarded by the industries concerned as an irreducible protection which they are unwilling to forgo.

Sometimes even these "*tarifs de combat*" (which, contrary to pre-war usage, are now often put into force before negotiation) have in the interval given rise to new industries which cannot subsist without their aid.

The Committee feels called upon to draw special attention to the disadvantages of this tariff policy, and more particularly to the dangers involved by its extension while new Customs tariffs are in preparation, though this policy is by no means peculiar to the Succession States. Clearly, however, it has proved specially burdensome to Austria in her negotiations with other countries, since in those negotiations Austria has been placed in a comparatively weak position.

While recognising that it is not for the League of Nations to dictate to the various States the level of their Customs tariffs, and

while realising that the different conditions proper to different countries must necessarily lead to differences of tariff systems, the Economic Committee cannot but emphasise the importance of finding appropriate means by which these States, and especially those which were formed out of or have received part of the former Austro-Hungarian territories, may diminish the impediments offered by their Customs tariffs to their mutual trade. The Committee does not overlook the fact that, among the methods which have been suggested for this purpose, is that of some system of preferential tariffs between Austria and some or all of the States referred to above. These ideas, however, have not taken the form of any concrete proposal.

At the same time the Committee feels that one point — though a point of secondary importance — should be mentioned. The Committee's attention has been called to a memorandum addressed by the " Hauptverband der Industrie Oesterreichs " to the Austrian Government, pointing out the harm caused to Austrian trade by the instability of the tariffs in certain countries, including the Succession States. The memorandum draws the Government's attention to the difficulties caused by abrupt and frequent changes in the duties, which are injurious to trade and at the same time form an obstacle to the conclusion of commercial treaties. Most of these questions are covered by the Geneva Convention of November 1923 on the Simplification of Customs Formalities; but, although this Convention was signed by all the seven States which were formed out of or received part of the former Austro-Hungarian territory, it has as yet been ratified by only two of them — Austria and Italy. The Economic Committee learns that in most of the other five States a procedure of ratification has been instituted and has reached a more or less advanced stage. The Committee is of opinion that, in view of these circumstances, it might be desirable that the Council should point out to those States which have not yet ratified the Geneva Convention the importance of doing so as soon as possible.

If the Committee has regarded the commercial relations between Austria and the Succession or Cessionary States as the central point of the problem of Austria's outlets, the reason is that it has been forced to realise that the countries in question constitute the most important of those outlets. The Committee has not, however, neglected to consider Austria's commercial relations

with other countries, and the difficulties which those relations encounter.

The Committee is of opinion that, either when their commercial conventions with Austria come to be renewed, or by readjusting those conventions before that date, or by some other means, the States in question should be asked to complete, in its economic aspect, the work of reconstruction so happily undertaken under the auspices of the League of Nations.

* * *

The considerations set out above have led the Committee to formulate the following recommendations:

1. The improvement of Austria's agricultural output would seem to be the most essential remedy for the shortage in her food supply and should be promoted by a suitable system of long-term credits.

2. In order to extend those further markets which Austria requires, notably in her relations with the States which were formed out of or have received part of the former Austro-Hungarian territories, Austria and the States in question should be invited to conclude among themselves commercial agreements of the closest possible character which would by suitable means satisfy the needs of each State without affecting any obligations which it may have assumed towards other States.

3. As regards other States, the Committee is of opinion that they should be invited to seek means — either when their commercial conventions with Austria come to be renewed, or by readjusting those conventions before that date, or by other methods — of completing the economic reconstruction of Austria by extending the outlets for Austrian production and trade.

4. The Committee is further of opinion that the attention of those of the Central European States which have not yet ratified the Convention of 1923 on Customs Formalities be

drawn to the urgent necessity of expediting ratification, in view especially of the prejudice caused to their commercial relations with Austria by a continuance of the present state of instability.

B. REPORT OF FINANCIAL COMMITTEE OF DECEMBER 8th, 1925.

On September 10th last, the Council, on the recommendation of the Financial Committee, decided that, upon certain conditions, the control of the Commissioner-General should be changed in character from January 1st, 1926, and should be brought to an end after the submission of the closed accounts for 1925.

The conditions included the agreement of Austria to the continuance of the Bank Adviser for a further three years after the termination of the control and to the right of the Council to re-establish control under certain specified conditions within a period of ten years.

The Council further requested the Financial Committee to discuss at its present session with the Austrian Government and the other authorities concerned (*i.e.*, the Committee of Control and the Trustees) the precise modalities under which, after control has ceased, the provisions of the Protocols of 1922 should be carried out as regards:

(1) The management of the assigned revenue account:

(2) The control of the expenditure of the remainder of the reconstruction loan;

(3) The mode of communication between the Government and the Committee of Control.

The Committee understands from the Austrian Government that it is prepared to enter into an engagement covering the Council's requirements as to the maintenance of the Bank Adviser and the re-establishment of control, and that, having obtained the requisite authority from Parliament, the Chancellor proposes to sign a declaration under *pleins pouvoirs* transmitted for the purpose by the President of the Republic. The Financial Committee has discussed with the Austrian Government the form of

the proposed declaration and, after consultation with the Legal Section of the Secretariat, considers that it may be accepted by the Council as satisfying the conditions in question.

With regard to the mode of nomination of the Adviser to the Austrian National Bank, the Committee recommends that the Council and the Austrian Government should enter into the annexed Agreement.

With regard to the modalities, the Committee recommends that the following system should be instituted by the Council:

As from the date at which the control by the Commissioner-General is terminated, in accordance with paragraph 5 of Article 4 of Protocol III, down to the date at which the loan contemplated by Article 1 of Protocol II and every part thereof and every claim in respect thereof, including claims of the guarantor Governments, shall have been completely discharged, except during the period for which a Commissioner-General may have been again appointed, the following provisions should apply:

(*a*) The Committee of Control, in the exercise of the powers given to it by Protocol II, may, after the termination of the functions of the Commissioner-General, make any communications direct to the Austrian Government. The Austrian Government should be represented at the meetings of the Committee of Control.

(*b*) The Council, in agreement with the Committee of Control, should decide that the special account into which the yield of the gross revenues designed as security shall continue to be paid, in accordance with Article 5 of Protocol III and Clause 8 of the General Bond of the loan, shall be under the management of the Trustees, who shall draw from such special account the sums which under the terms of the General Bond are to be provided therefrom for the service of the loan, and shall exercise in regard to the said account the powers which the General Bond contemplates that they shall exercise, if in control thereof, and, subject to the preceding provisions, shall place the balance of the account at the disposal of the Austrian Government. For purposes of the application of the provisions of the General Bond, the Trustees are substituted for the Commissioner-General in accordance with the stipulation of Clause 23 of the Bond. The management of the

special account, as specified above, shall, in conjunction with the powers of the Committee of Control remaining under Protocol II, constitute the "special control" which, under paragraph 4 of Protocol III, is to be established when the Commissioner-General's functions have been terminated, and the additional duties and responsibilities of the Trustees are restricted to those defined in the present paragraph and the General Bond.

(*c*) In order to secure the above collaboration between the two bodies, the Trustees should, after the termination of the functions of the Commissioner-General, be present, or should be represented, at meetings of the Committee of Control.

The Trustees should furnish the Committee of Control with such information as they may request as to the accounts under their control and will warn it if in their view the situation is such as to indicate a danger of default; in the event of default by the Austrian Government, the Trustees should forthwith intimate the nature and extent of the default to the Committee of Control.

(*d*) The Austrian Government should undertake to furnish the Committee of Control and the Trustees with such information as they may require in connection with the exercise of their respective functions.

Except as provided in the decisions now to be taken, the provisions of the Protocols of 1922 would of course continue to apply.

The balance on the loan contemplated by Article 1 of Protocol III should be retained in liquid form in a separate account managed by a person to be appointed by the Financial Committee except in so far as it is released for expenditure within the budget, for such purposes as the Financial Committee may from time to time approve, and the Austrian Government should furnish such evidence of the expenditure on purposes so approved as the Committee may desire.

The Committee contemplates in this proposal that liberations of sums within the total, and in accordance with the programme, approved from time to time, would be made solely upon evidence of the expenditure being devoted to the approved objects and not, as during the period of the Commissioner-General's control as hitherto exercised, on conditions involving an examination of other budget expenditure.

The Committee has consulted the Committee of Control and the Trustees and is glad to report that both these authorities have signified their concurrence in the above proposals so far as they are concerned.

The Austrian Government informed the Committee that it undertook to effect in the budget expenditure of 1926 economies equivalent to the expenditure necessitated by the extraordinary grants which it has allocated to the officials.

The Committee notes this declaration, which it considers as binding the Austrian Government.

The Financial Committee also discussed with the Economic Committee a suggestion made by the latter as to the formation of an organisation to facilitate agricultural credits. The Financial Committee expressed its willingness to examine any detailed proposals for this purpose which the Austrian Government might decide to place before it.

Annex.

Draft Agreement as to Nomination of Bank Adviser.

Whereas the Law of the Federal Republic of Austria dated December 3rd, 1925, respecting the continuance of the functions of the Adviser of the National Bank, contemplates an Agreement between the Council of the League of Nations and the Austrian Government with regard to the mode of nomination:

The Council and the Austrian Government agree that the Adviser should be appointed by the President of the Federal Republic on a proposal of the Austrian Government in accordance with a nomination made by the Council of the League of Nations by a three-quarters majority vote — Austria abstaining.

C. LETTER FROM THE CHAIRMAN OF THE FINANCIAL COMMITTEE TO THE AUSTRIAN FEDERAL CHANCELLOR, DATED DECEMBER 8th, 1925.

I have the honour to forward you, in the name of the Financial Committee, the attached Declaration in regard to the rules

according to which advances from the remainder of the reconstruction loan may continue to be made to the Austrian Government after the functions of the Commissioner-General have come to an end.

(*Signed*) Leopold DUBOIS.

Annex.

DECLARATION OF THE FINANCIAL COMMITTEE OF DECEMBER 8th, 1925.

The Financial Committee contemplate that, pending further discussion of the various projects to which the *reliquat* of the loan (over and above the amount which it has been agreed to release for investment during 1926) should be devoted, the general system of temporary advances from time to time from the amounts available for temporary investment will continue, and their representative will be prepared, after the final termination of the control in June, to meet reasonable requests of the Austrian Government for temporary advances as heretofore, reserving of course the right to have regard to the general amount of such advances at any time outstanding in order to satisfy himself that such advances remain liquid.

Advances will, however, be made by the agent in Vienna on demand up to a maximum outstanding at any time of 10,000,000 gold crowns.

Further, and independently of the above, the Committee would see no objection to monthly advances being made for electrification and other investments for purposes and amounts approved as soon as the Austrian Finance Ministry is called upon to make such payments, subject to readjustment later on the receipt, at the end of the month, of the relevant proofs of payment.

The Commissioner-General is communicating with the Austrian Government with regard to the arrangements in the interval before July next.

Certified to be in conformity with the decisions of the Financial Committee.

(*Signed*) Leopold DUBOIS,
Chairman.

D. LETTER FROM THE AUSTRIAN FEDERAL CHANCELLOR TO THE PRESIDENT OF THE COUNCIL OF THE LEAGUE OF NATIONS, DATED DECEMBER 9th, 1925.

The Austrian Government, with a view to carrying into effect the resolution of the Council of September 10th, 1925, whereby the Council adopted the proposals contained in the report of the Financial Committee, including the recommendations contained in the introduction to this report, as supplemented by the remarks of the Chairman of the Financial Committee;

Having taken note that, under this resolution, the Council contemplated that the control of the Commissioner-General as from January 1st, 1926, shall be limited to a control over the assigned revenues and over the expenditure of the remainder of the reconstruction loan, and that, under the conditions specified in the decision of September 10th, 1925, after the passing of the 1926 budget and the submission of the closed accounts for 1925 as prepared by the Audit Office, the control exercised by the Commissioner-General shall be terminated:

Has signed the annexed Declaration regarding the obligations falling upon Austria in pursuance of the exercise by the Council of the League of Nations of its right under paragraph 5 of Article 4 of Protocol III of October 4th, 1922.

The undertakings assumed by the Austrian Government in this Declaration will not come into force unless and until the Council shall have modified the control exercised by the Commissioner-General and shall have terminated, at a later stage, this control at the dates and under the conditions contemplated in the resolution of September 10th, 1925.

(Signed) RAMEK.

E. DECLARATION BY THE AUSTRIAN GOVERNMENT OF DECEMBER 9th, 1925.

In pursuance of Protocols II and III of October 4th, 1922, and with a view to the exercise by the Council of its right, under paragraph 5 of Article 4 of Protocol III, to bring to an end the functions of the Commissioner-General when it shall have ascertained that the financial stability of Austria is assured without prejudice to any special control of the assets assigned for the service of the loan;

In order to assist the continuance of this financial stability and in order that the necessary measures may be taken to ensure the service of the reconstruction loan after the termination of the functions of the Commissioner-General, the Austrian Government accepts the following obligations:

(1) The Adviser to the National Bank shall remain in office for three years after the date of the definitive termination of control by the Commissioner-General;

(2) During the period of ten years after this same date the Council of the League of Nations shall, by a three-quarters majority vote — Austria abstaining — have the right again to re-establish control by a Commissioner-General if the proceeds from the assigned revenues are insufficient to cover the service of the loan or if the equilibrium of the budget is seriously endangered. In this connection, the Austrian Government will, if it is so requested, give to the Council any information relating to its budget;

(3) Austria agrees to the resolution of the Council dated December 9th, 1925.

(Signed) RAMEK.

F. COUNCIL RESOLUTIONS OF DECEMBER 9th, 1925.

I.

The Council:

Adopts the recommendations of the Financial Committee [1] regarding the various points as to which it has been asked to make proposals (control of the expenditure of the remainder of the reconstruction loan, management of the assigned revenue account, mode of communication between the Government and the Committee of Control). These points will be settled according to the annexed resolution;

Observes that, at the time when the Council contemplates exercising in the near future its right under Article 4 of Protocol III to bring to an end the functions of the Commissioner-General, a substantial portion of the international loan is still available, the deficits during the reconstruction period having been less than had been originally contemplated;

Notes that this balance will be progressively applied for the benefit of Austrian economic life, and that as from the beginning of 1926 a substantial part will be devoted to the electrification of the railways and to productive investments;

Is glad that the system contemplated by the Financial Committee for the administration of the balance of the loan has been so devised as to eliminate every element of general financial control and to leave Austria in complete control of her own budget;

Remarks with satisfaction that under the plan adopted the special control of the assets assigned for the service of the loan (control which, in pursuance of Article 4 of Protocol III, it is the duty of the Council to determine when the functions of the Commissioner-General are brought to an end) can in no case infringe upon the entire political and economic independence of Austria;

Congratulates the Austrian Government and the Austrian people upon its success in the work of reconstruction and earnestly hopes that no effort will be spared to maintain the country's permanent financial stability.

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[1] See 12. B. above.

II.

The Council:

(1) Notes the 33rd, 34th and 35th reports of the Commissioner-General;

(2) Notes the report of the Financial Committee dated December 8th [1];

(3) Takes note of the report of the Economic Committee dated December 5th [2] with regard to the economic situation of Austria;

(*a*) Notes and approves the opinion of the Economic Committee that the improvement of Austria's agricultural output would seem to be the most essential remedy for the shortage in her food supply and should be promoted by a suitable system of long-term credits;

(*b*) In order to extend those further markets which Austria requires, notably in her relations with the States which were formed out of or have received part of the former Austro-Hungarian territories, the Council invites Austria and the States in question to conclude among themselves commercial agreements of the closest possible character, which would by suitable means satisfy the needs of each State without affecting any obligations which it may have assumed towards other States;

(*c*) Further, the Council invites other States to seek means — either when their commercial conventions with Austria come to be renewed, or by readjusting those conventions before that date, or by other methods — to complete the economic reconstruction of Austria by extending the outlets for Austrian production and trade;

(*d*) Finally, the Council draws the attention of those of the Central European States which have not yet ratified the Convention of 1923 on Customs Formalities to the urgent necessity of expediting ratification, in view especially of the prejudice caused to their commercial relations with Austria by a continuance of the present state of instability.

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1 See 12. B. above.
2 See 12. A. above.

(4) The Council:

With a view to carrying out the provisions of Protocol III, whereby it assumed the duty of bringing to an end the functions of the Commissioner-General in Austria when it had ascertained that the financial stability of Austria was assured, without prejudice to any special control of the assets assigned for the service of the loan;

Having taken note of the letter of the Austrian Government [1] and the declaration by the Austrian Government annexed thereto [2] signed by the Federal Chancellor, Dr. Rudolf Ramek, on December 9th, 1925, containing the obligations undertaken by the Austrian Government, with a view to carrying out the Protocols of October 4th, 1922, after the termination of the Commissioner-General's functions;

After having consulted the Committee of Control and the Trustees, and having been informed by them that, in their opinion, the undertakings of the Austrian Government and the measures contemplated in the present resolution are entirely satisfactory to them so far as they are concerned, and on the report of the Financial Committee,

Takes note of the declaration of the Austrian Government made by its duly authorised representative, and observes that it will come into force on the date when the functions of the Commissioner-General will have been terminated by a decision of the Council under the conditions defined in the letter of the Austrian Government.

In order to provide for the special control of the assets assigned for the service of the loan contemplated under Article 4, paragraph 5, of Protocol III,

The Council decides:

As from the date at which the control by the Commissioner-General is terminated, in accordance with paragraph 5 of Article 4 of Protocol III, down to the date at which the loan contemplated by Article 1 of Protocol II and every part thereof and every claim in respect thereof, including claims of the guarantor Governments, shall have been completely discharged, except during any period

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1 See 12. D. above.
2 See 12. E. above.

for which a Commissioner-General may have been again appointed, the following provisions shall apply:

(*a*) The Committee of Control, in the exercise of the powers given to it by Protocol II, may, after the termination of the Commissioner-General, make any communications direct to the Austrian Government. The Austrian Government will be represented at the meetings of the Committee of Control.

(*b*) The Council, in agreement with the Committee of Control, decides that the special account into which the yield of the gross revenues designed as security shall continue to be paid in accordance with Article 5 of Protocol III and Clause 8 of the General Bond of the loan, shall be under the management of the Trustees, who shall draw from such special account the sums which under the terms of the General Bond are to be provided therefrom for the service of the loan, and shall exercise with regard to the said account the powers which the General Bond contemplates that they shall exercise if in control thereof, and, subject to the preceding provisions, shall place the balance of the account at the disposal of the Austrian Government. For purposes of the application of the provisions of the General Bond the Trustees are substituted for the Commissioner-General in accordance with the stipulation of Clause 23 of the Bond.

The management of the special account, as specified above, shall, in conjunction with the powers of the Committee of Control remaining under Protocol II, constitute the "special control" which under Article 4 of Protocol III is to be established when the Commissioner-General's functions have been terminated, and the additional duties and responsibilities of the Trustees are restricted to those defined in the preceding paragraph and the General Bond.

(*c*) In order to secure the above collaboration between the two bodies the Trustees will, after the termination of the functions of the Commissioner-General, be present, or will be represented, at meetings of the Committee of Control.

The Trustees will furnish the Committee of Control with such information as the Committee may request as to the accounts under their control and will warn the Committee if in their view the situation is such as to indicate a danger of default; in the event of default by the Austrian Government,

the Trustees shall forthwith intimate the nature and extent of the default to the Committee of Control.

(*d*) The Austrian Government undertakes to furnish the Committee of Control and the Trustees with such information as they may require in connection with the exercise of their respective functions.

The Council observes that, except as provided in the above decision and the connected declaration of the Austrian Government, the provisions of the Protocols signed on October 4th, 1922, continue to apply.

The balance of the loan contemplated by Article 1 of Protocol II shall be retained in liquid form in a separate account managed by a person to be appointed by the Financial Committee, except in so far as it is released for expenditure within the budget for such purposes as the Financial Committee may from time to time approve, and the Austrian Government shall furnish such evidence of the expenditure on purposes so approved as the Committee may desire.

(5) Whereas the Law of the Federal Republic of Austria dated December 1st, 1925, respecting the continuance of the functions of the Adviser of the National Bank contemplates an agreement between the Council of the League of Nations and the Austrian Government with regard to the mode of nomination,

The Council

Agrees that the Adviser should be appointed by the President of the Federal Republic on a proposal of the Austrian Government in accordance with a nomination made by the Council of the League of Nations by a three-quarters majority vote, Austria abstaining.

13.

MARCH 1926.

A. REPORT OF FINANCIAL COMMITTEE OF MARCH 8th, 1926.

The Committee have had before them the thirty-sixth, thirty-seventh and thirty-eighth Reports of the Commissioner-General, supplemented by further information and explanations furnished

by the Commissioner-General, Dr. Schüller, representing the Austrian Government, and by Dr. Reisch, President of the National Bank.

The Committee beg to remind the Council that, under decisions taken in September and December last, the control of the budget terminated on December 31st, 1925; that the other functions of the Commissioner-General, in particular the control of the assigned revenues and of the release of money for approved objects from the balance of the loan, have been continued until the closed accounts for 1925 are available and have been examined; and that the procedure for future releases from the balance of the loan and the special control of the assigned revenues which are to come into force upon the termination of the Commissioner-General's duties have also been determined, with the agreement, where required, of the other authorities concerned (viz., the Committee of the Guaranteeing States of the Austrian Loan, 1923-43, and the Trustees).

As the closed accounts are not yet available for examination, the occasion for taking the formal and definitive decision with regard to the termination of the Commissioner-General's office will arise only at the next meeting in June. In these circumstances, the Committee think that it will be sufficient in the present report, without making any general review and appreciation of the general situation, to confine themselves to dealing with the following specific points which have been under discussion.

1. At the last meeting of the Committee, the Austrian Government informed the Committee that, after the preparation of the 1926 budget to which the Committee agreed, it had been necessary to arrange for certain extraordinary grants to officials involving an extra charge of 15 million schillings. The Committee made no objection to this, in consideration of an engagement by the Government to arrange economies in the budget in other directions which would effect an equivalent saving. The Government has not yet been able to make arrangements which will secure more than a portion of the necessary saving. The Committee have, however, been assured that the Government is confident that it will be able to arrange further economies within the year which will secure the promised result. The Committee desire to emphasise the need

for the Government to make both these and, if possible, still further economies, as they are convinced that the restriction of expenditure to a level which will enable the burden of taxation to be reduced is of importance to the whole economic life of Austria.

2. The Financial Committee received a request from the Austrian Government in regard to the system under which the balance of the loan is temporarily invested. As the system to be approved by the Committee would only come into operation after the termination of the Commissioner-General's control, the Committee prefer to take a decision on this question at their June meeting.

3. The Committee have had before them a memorandum of the Austrian Government proposing a plan for relieving the budgets of this and the following years of a portion of the charge in respect of pensions by means of insurance or a new loan.

Having regard, on the one hand, to the fact that the control of the Austrian budget is now terminated, and that the responsibility for the current and future budgets, and for the observance of such engagements as have been taken in connection with them, rests upon the Austrian Government, and, on the other hand, to the fact that the consent required for new loan operations is not that of the Financial Committee but of other authorities, the Committee do not feel called upon to go into this question. Moreover, the Committee remark that the scheme, as presented to them, is in outline only and does not include the details of cost, etc., which would be necessary to appreciate its probable effect on the budgetary position.

4. The Committee also examined, in conjunction with a subcommittee of the Economic Committee, a memorandum of the Austrian Government presenting a scheme for financing the erection of dairies by local co-operative societies and asking for the release of 6 million schillings from the balance of the loan.

It was understood, in discussion of this question with the Austrian representatives:

(*a*) That the money would be lent by the Government to certain agricultural organisations on conditions which would secure that it was utilised in conjunction with supplementary funds expended by the interested persons themselves;

(*b*) That the interest charged would approximate to that payable by the Government on the reconstruction loan, with suitable amortisation charges;

(*c*) That no financial responsibilities for the loan would rest on the National Bank, and that the precise method by which the advances would be handled would be further discussed;

(*d*) That the accounts of these operations would be audited by the Cour des Comptes and published.

On these understandings, the Financial Committee, in agreement with the Commissioner-General, decided to recommend that the Commissioner-General should be authorised, subject to a satisfactory arrangement of details, to release 6 million schillings from the balance of the loan for the scheme in question.

5. The Committee have received a letter from the Trustees of the Austrian loan with regard to the decisions taken by the Council in December as to the special control of the assigned revenues to come into force after the termination of the Commissioner-General's control (Annex I). The Committee recommend the Council to authorise the Secretary-General to reply in the terms of the draft shown in Annex II.

6. The Committee propose that the Council should forthwith approve the appointment of their present Chairman, M. Dubois, to manage the account in which the balance of the reconstruction loan will be kept; the expenditure incurred by M. Dubois in this capacity would be defrayed by the Austrian Government, at M. Dubois' request, out of the loan account.

The Committee see no reason why the same resident agent in Vienna — who will be responsible, under the authority of M. Dubois, for the actual management of the balance account — should not also manage on behalf of the Trustees the assigned revenues account, which will be administered by them in accordance with paragraph II, 4 (*b*), of the Council's resolution of December 9th, 1925.

The Committee recommend that the Secretary-General should be authorised to ascertain the intentions of the Trustees on this question, and eventually to appoint, in consultation with them and with M. Dubois, an official who can be responsible for both these duties.

* * *

The Committee recommend that the Council should approve the above proposals and take note of the thirty-sixth, thirty-seventh and thirty-eighth Reports of the Commissioner-General.

Annex I.

LETTER FROM THE TRUSTEES FOR THE AUSTRIAN GOVERNMENT GUARANTEED LOAN 1923-1943 TO THE CHAIRMAN OF THE FINANCIAL COMMITTEE.

Brussels,
Paris,
Stockholm, February 26th, 1926.

The Trustees have carefully considered the resolution adopted by the Council on December 9th, 1925, relative to *(inter alia)* the special control of the assets assigned for the service of the Austrian Government Guaranteed Loan 1923-1943.

The resolution provides that the control is to consist in the management of the Special Account by the Trustees as specified in the resolution, together with the powers of the Committee of Control remaining under Protocol II.

The resolution goes on to make it clear that the additional duties and responsibilities of the Trustees are restricted to those defined in the resolution and the General Bond. The resolution, however, contains the following paragraph:

> "After having consulted the Committee of Control and the Trustees, and having been informed by them that, in their opinion, the undertakings of the Austrian Government and the measures contemplated in the present resolution are entirely satisfactory to them so far as they are concerned, and on the report of the Financial Committee. . ."

While the Trustees are willing to carry out to the best of their ability the additional duties imposed upon them by the Council, they must not by so doing be taken to have expressed any opinion regarding the measures contemplated in the resolution nor as abrogating or consenting to the abrogation of any rights which the Trustees or Bondholders may have under the General Bond.

They further wish to make it quite clear that neither their acceptance of these duties, nor any omission or failure whatsoever on their part in the execution thereof, nor any failure on their part to observe or notify the Committee of Control of any default or impending default, shall be taken to impair in any way the rights of the Bondholders *vis-à-vis* the Austrian Government or the guarantor States.

The Trustees will be obliged if your Council will take note of these observations and advise the Committee of Control and any other parties concerned.

The Trustees will be glad to know the date at which it is proposed that the duties provided for in the resolution are to commence and the procedure which is necessary to enable them effectively to perform them.

It is, of course, very desirable that any question as to procedure should be settled in good time before the date for commencement.

(Signed) Alb. JANSSEN.
N. D. JAY.
M. WALLENBERG.

Annex II.

DRAFT LETTER FROM THE SECRETARY-GENERAL TO THE TRUSTEES FOR THE AUSTRIAN GOVERNMENT GUARANTEED LOAN 1923-1943.

The Council of the League of Nations desires me to send the following reply to your letter of February 26th addressed to the Chairman of the Financial Committee, with regard to the decision taken by the Council on December 9th, 1925, in connection with the prospective termination of the office of the Commissioner-General.

The Council is glad to note the confirmation by the Trustees of their willingness to carry out the additional duties contained in the decision of December. With respect to the third paragraph of your letter, I am to point out that the Council resolution states that the Council had been informed by the Trustees that the measures contemplated in the resolution were entirely satisfactory to them "so far as they are concerned". This means that such parts of the resolution as required the consent of the Trustees, as involving responsibilities upon them not specifically accepted by them hitherto under the provisions of the Protocol and the General Bond, had received the consent of the Trustees. You will remember that the assent to these parts of the resolution was specifically given by each of the Trustees in December last. The resolution does not mean that the Trustees have

expressed or have been asked to express an opinion on those parts of the resolution which embody decisions on other points. The Council agrees that the Trustees have not consented to the "abrogation of any rights which the Trustees or Bondholders may have under the General Bond", and desires to assure the Trustees that the decisions do not involve any such abrogation. The Council takes note of the observations of the Trustees in paragraph 5 of their letter, and is in agreement with them.

In general, the Council desires to add that it was careful to take its decisions, with due advice, in such a form as maintains the rights of the Trustees and the Bondholders, and to institute an effective system of control in conformity with the provisions and promises of the Protocols, the General Bond and the prospectuses.

With regard to the last two paragraphs of your letter, the Council asks me to state that it contemplates that the functions of the Commissioner-General will be brought to an end on June 30th, after examination of the closed accounts for the year 1925 at the next meeting of the Financial Committee and the Council, about June 7th next. As the new system should come into force immediately upon the termination of the Commissioner-General's office, it is desirable to take the necessary steps in advance so as to secure its application on July 1st. The Trustees or their local agent will be furnished with the same information with regard to the yield of the assigned revenues as has hitherto been furnished to the Commissioner-General. In this connection, it may be observed that it is proposed to appoint an officer, who is now a member of the Commissioner-General's staff, to assist with the work involved in the management of the loan account, in accordance with programmes approved from time to time by the Financial Committee. The work involved will not require his whole time, and the Trustees might perhaps think it advisable to make an arrangement under which he would assist them locally in their duties in relation to the control of the assigned revenues. The services of the League Secretariat will be at the disposal of the Trustees if they desire its assistance in making any detailed arrangements with this officer with a view to the institution of the new system on July 1st.

A copy of this correspondence is being sent to the Committee of the Guaranteeing States of the Austrian Loan.

B. COUNCIL RESOLUTION OF MARCH 11th, 1926.

The Council takes note of the Thirty-sixth, Thirty-seventh and Thirty-eighth Reports of the Commissioner-General for Austria and takes note of and approves the report of the Financial Committee [1].

[1] See 13. A. above.

14.

JUNE 1926.

A. REPORT OF FINANCIAL COMMITTEE OF JUNE 7th, 1926.

1. *Termination of the Control.*

After the full examination of the Austrian position made by the Financial Committee during its session of September last, the Committee recommended to the Council a series of conditions which had to be fulfilled before they could make a definite recommendation as to the termination of the control. Of these various conditions, only two remained to be fulfilled after the Council meetings of December and March last:

(*a*) The Austrian Government had still to present the closed accounts for the year 1925. These accounts have recently been submitted by the Government to the Commissioner-General and examined by him. Upon the report of the Commissioner-General, and in agreement with him, the Financial Committee has come to the conclusion that the total figures indicated by the closed accounts can be accepted as satisfying the conditions required by the Committee.

(*b*) In September last, the Financial Committee, moreover, reserved to itself the right to examine the general economic and financial situation before pronouncing itself definitely as to the termination of the control. Though there is still an economic depression, the Committee does not consider the continuation of the control is justified. The Committee has received full assurances that the Austrian Government is completely aware of the necessity of vigilance and prudence in its administration. The budget is, and has for over a year been, in equilibrium; the currency is, and has for over three years been, stable and is well secured. The stability so attained can, and should, be maintained by prudent administration, the condition upon which the continuance of the financial stability of every country is dependent.

The Committee therefore recommends the Council to declare that " the financial stability of Austria is assured ", and to terminate

the office of the Commissioner-General as on June 30th, 1926, subject to the re-establishment of his office if it should become necessary under the conditions specified in the resolution of the Council of December 9th, 1925.

2. *Issue of Treasury Bills.*

The Financial Committee has been asked by the Austrian Government to give a decision as to the issue of Treasury bills.

In principle, and subject to the agreement of the Committee of the guarantor States, the Committee is in favour of the issue of such bonds on the following conditions, as the result of an agreement between the Austrian Government and the Financial Committee; at the same time, before giving a definite decision, the Committee would like, in view of the highly technical nature of the subject, to discuss with the Austrian Government the text of the draft law that will be required.

(1) The Treasury bills should be short-term bills, *i.e.*, they should mature within not more than six months; they should not mature later than 15 days after the close of the fiscal year.

(2) The total amount issued should not be more than 75 million schillings.

(3) The bonds should be expressed in schillings only.

(4) They should be issued for ordinary cash requirements only.

(5) In order to enable the National Bank to rediscount these bonds — as, in the Financial Committee's opinion, the statutes of the Bank do not enable it to rediscount them or to make secured advances upon them — the Financial Committee recommends that the statutes be so amended as to enable the Bank to rediscount the bonds herein referred to, provided that they are endorsed by a private person who is financially solvent [1], or to grant advances on them, always up to a maximum of 75 million schillings.

(6) The Austrian Government should refund to the account for the balance of the loan the following sums which have been temporarily placed at its disposal:

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[1] (Physical or moral.) By "private" the Committee intends to exclude endorsement by a public authority or State undertaking.

(*a*) 30 million schillings lent out monthly to the Post Office Savings Bank;

(*b*) 14.4 million schillings representing a Treasury cash reserve;

(*c*) 7.5 million schillings advanced by way of credit for the purchase of artificial manure.

(7) The Government should use 50 million schillings out of the balance of the loan for the final repayment of a portion of its debt to the National Bank (in addition to the normal repayment) within six months following the coming into force of the law, or after the first issue of the bonds.

3. *Construction of Telephone Cables.*

At the request of the Austrian Government, the Financial Committee has approved the release to the Austrian Government during the year 1926 of 27 million schillings, to be taken from the balance of the reconstruction loan, for the purpose of constructing international telephone cables. The cables in question are underground telephone lines from Vienna to the Hungarian frontier and from Linz to the Swiss frontier. The Government has undertaken to make in the 1927 budget an appropriation of at least 44 million schillings, which amount will be required for completing these lines; this appropriation will be provided from the ordinary budget revenue.

B. COUNCIL RESOLUTIONS OF JUNE 9th, 1926.

I.

The Council:

(1) Takes note of the Thirty-ninth and Fortieth Reports of the Commissioner-General.

(2) Notes and adopts the report of the Financial Committee [1], and in particular the recommendation of the Committee, made in agreement with the Commissioner-General, that the control in Austria should now be terminated.

[1] See 14. A. above.

(3) Decides, in pursuance of the last paragraph of Article 4 of Protocol III, that the functions of the Commissioner-General shall be brought to an end on June 30th, 1926, having ascertained that the financial stability of Austria is assured.

(4) As from June 30th, 1926, the relevant provisions contained in the Council resolutions of December 9th, 1925, and March 11th, 1926, will come into force.

(5) The labours of the Commissioner-General are thus terminated. When the scheme was initiated, the difficulties inherent in the problem seemed almost insuperable. The task has proved protracted and exacting. The fact that it has now been successfully completed is in large measure due to the indefatigable efforts of Dr. Zimmerman and his collaborators. The Council desires to express to him its high appreciation of his work and its gratitude for the services which he and his colllaborators have rendered to the League and to Austria.

II.

The Council takes note that, in accordance with its resolution of March 11th, 1926, the Secretary-General will, in agreement with the Trustees of the Austrian Reconstruction Loan and with M. Dubois, who has been designated by the Financial Committee to administer the balance of the loan account, appoint M. Rost van Tonningen to act in Vienna in pursuance of the Council's resolutions of December 9th, 1925, and March 11th, 1926.

The Council, considering that the work to be performed by M. Rost van Tonningen and his staff is " work undertaken by the League " in the sense in which this term is employed in Article 33, paragraph 2, of the Financial Regulations of the League, authorises and empowers the Secretary-General to advance from the Working Capital Fund the sums necessary for the carrying-out of the arrangement herein described, it being understood that the total sum that may at any time be so advanced shall not exceed 12,000 gold francs, and that every three months the sums so advanced shall be reimbursed by the Austrian Government.

VIII.

CHRONOLOGY OF AUSTRIAN RECONSTRUCTION.

1922.

August:	Meeting of Prime Ministers in London. Austrian appeal.
August 4th:	Reparation Commission releases liens on certain Austrian assets to serve as security for the new Bank of Issue.
August 15th:	Reply of Mr. Lloyd George to the Austrian appeal, referring the Austrian situation to the Council of the League for consideration.
August 31st:	First meeting of the Council. Financial problem referred to the Financial Committee.
September 6th:	The Austrian Chancellor joins the Council and makes an appeal. Czechoslovakia is also for the first time represented. Appointment of Austrian Sub-Committee.
September 6th to October 4th:	Elaboration of a reconstruction scheme by Austrian Sub-Committee, assisted by technical, financial, economic and legal organisations of the League.
September 30th:	Favourable report on progress by Council at last session of Assembly.
October 4th:	Signature of three Protocols at Geneva.
October 18th:	Provisional delegation of the Council begins work in Vienna.
October 27th:	Reparation Commission releases certain Austrian assets to serve as security for service of short-term loans under League of Nations scheme.

1922.

November 5th:	Spanish Government signs Protocols I and II.
November 14th to December 4th:	Austrian banks subscribe 30 million gold crowns to internal loan.
November 18th:	Stoppage of uncovered note issues to the Government.
November 23rd:	First meeting of the Committee of Control.
November 26th:	Law granting special powers to Government to carry out reforms voted unanimously by Austrian Parliament.
December 2nd:	Geneva Protocols ratified by Austrian Parliament by majority vote.
December 3rd:	Reconstruction Law passed by Austrian Parliament by majority vote.
December 4th to January 16th, 1923:	Internal loan floated for public subscription (result: 30 million gold crowns from banks and 21 million gold crowns from the public).
December 4th:	Subscription opened for initial capital of new Bank of Issue (30 million gold crowns in all: 22 millions subscribed by public, 8 millions by the Government).
December 8th:	Payments of yield of Customs and tobacco monopoly into a controlled account begun.
December 15th:	British Parliament ratifies guarantee of loan.
December 15th:	Letter from Reparation Commission notifying the release by all Relief Bond-holding countries of their lien on Austrian assets, in accordance with the Reparation Commission's decisions of August 4th and October 27th regarding the reparation lien.
December 15th:	Dr. Zimmerman, first Commissioner-General, arrives in Vienna.
December 21st:	Dr. Reisch appointed President of the new Bank of Issue.
December 21st:	Czechoslovak Parliament ratifies the loan guarantee.
December 23rd:	Constituent Assembly of shareholders of the new Bank of Issue.
December 31st:	First meeting of Austrian Extraordinary Cabinet Council.
December 31st:	French Parliament ratifies loan guarantee.

1923.

January 2nd: New Bank of Issue takes over affairs of the former Austro-Hungarian Bank.

January 7th: New Bank of Issue publishes its first balance-sheet.

January 7th: Royal Decree signed providing Italian ratification of loan guarantee.

January 13th: Reduction in number of Austrian officials to date = 25,494.

January 27th to February 1st: Meeting of the Council, of the Austrian Committee and of the Committee of Control at Paris.

End of February: Short-term loan placed abroad:

London . .	£1,800,000	sterling;
Paris . . .	60,000,000	French francs;
Amsterdam .	6,000,000	Dutch florins;
Brussels . .	8,500,000	Belgian francs;
Stockholm .	1,800,000	Swedish crowns;
Switzerland .	5,000,000	Swiss francs.

Approximate total: £3,500,000.

February 20th: Reparation Commission suspends lien on certain Austrian assets to serve as security for service of long-term loan under League of Nations scheme.

Beginning of March: Appointment by Austrian Government of mission:

M. Franckenstein, Austrian Minister in London;

M. Peter Bark, former Russian Minister of Finance;

Mr. F. H. Nixon, former Director of Economic and Financial Section of Secretariat of League of Nations;

to obtain information and to prepare for issue of long-term loan provided for in Geneva Protocol No. II.

March 29th: Agreement concluded at Rome between Austria, Hungary, Italy and Kingdom of Serbs, Croats and Slovenes, and the Südbahn Co. and the Committee of bondholders of that company in

1923.

regard to traffic over the company's lines in those countries.

April 13th: Austrian Minister of Finance requests Commissioner-General to submit for approval of Committee of Control draft General Bond for issue of long-term loan contemplated in Geneva Protocols.

April 16th: General approval and authorisation given by Committee of Control to issue of long-term loan.

May 19th: Appointment of M. Schnyder de Wartensee (Swiss) as Adviser to Austrian National Bank.

May: Appointment by Austrian Government of Sir William Acworth, K.C.S.I., to report on Austrian Railways (assisted by Dr. Herold, Director of Railways Section of Swiss Federal Department of Railways, Posts and Telegraphs).

June 7th: Reparation Commission declares that all Relief Bond-holding States have suspended the liens possessed by them on certain Austrian assets to serve as security for the long-term loan.

June 11th: British portion of long-term loan floated (£14,000,000).

June 11th: American portion of long-term loan floated ($25,000,000).

June 11th: Czechoslovak portion of long-term loan (60 million gold crowns) taken over by group of banks (no public issue).

June 12th: Swedish portion of long-term loan floated (13,110,000 Swedish crowns).

June 15th: Dutch portion of long-term loan floated (3,000,000 gulden).

June 15th: Belgian portion of long-term loan floated (25,000,000 Belgian francs).

June 25th: Swiss portion of long-term loan floated (25,000,000 Swiss francs).

June: Austrian portion of long-term loan floated ($13,000,000).

1923.

July 19th:	Law passed by Austrian Parliament establishing economic organisation under title of "Austrian Federal Railways" (excluding Südbahn).
July 19th:	Law for issue of bronze and nickel coins passed by Austrian Parliament.
July 20th:	Appointment by League Council of three Trustees for long-term loan (1923–43): M. Albert Janssen, then Director of National Bank of Belgium, Brussels; M. Marcus Wallenberg, Director of Stockholm Enskilda Bank; Mr. N. J. Jay, Director of American Morgan Harjes Bank in Paris.
July 20th:	Italian portion of long-term loan floated (200,000,000 lire).
August 10th:	Report by Sir William Acworth on Austrian Railways submitted to Commissioner-General.
August 21st:	French portion of long-term loan floated (170,000,000 French francs)[1].
November 17th:	Reduction in number of officials in Austria to date = 51,043.
December 22nd:	"Schilling" law passed by Austrian Parliament (*i.e.*, law for issue of silver coins: 1 schilling = 10,000 crowns).

1924.

January 1st:	The "Südbahn" becomes an integral part of the "Austrian Federal Railways".
January:	Investigation into administrative and technical management of Austrian Salt Monopoly by M. Leprince-Ringuet, Inspector-General of Mines in France.
January:	Investigation into management of Austrian Tobacco Monopoly by M. Aliprandi, of the Italian Tobacco Administration.

[1] This completed the flotation of the various portions of the long-term loan (with the exception of the Spanish portion, 26 million gold crowns, floated later). Total net yield of long-term loan in gold crowns = 587,021,000

1924.

March 10th:	Austrian Government requests that level for budget equilibrium (fixed by League delegation in 1922 at a maximum of 350 million gold crowns) should be reconsidered.
March 12th:	Council requests Commissioner-General and Financial Committee to examine Austrian Government's request of March 10th and to submit a report at next Council session.
May 12th:	Appointment of M. A. van Gijn (Royal Commissioner to the National Bank of Holland, a former Minister of Finance) as Adviser to the Austrian National Bank, in place of M. Schnyder de Wartensee.
June 12th:	Preliminary Joint Report by Commissioner-General and Financial Committee on investigation undertaken in accordance with Council's request of March 12th, 1924.
June 16th:	Council notes preliminary Joint Report by Financial Committee and Commissioner-General and requests them to continue enquiry.
September 15th:	Further Joint Report by Financial Committee and Commissioner-General, and Agreement concluded with Austrian Government fixing maximum budget expenditure at new level of 495 million gold crowns, and laying down various measures of reform to be undertaken by Austrian Government as condition of modification and ultimate termination of budget control.
September 16th:	Resolution of Council approving Joint Report by Financial Committee and Commissioner-General and Agreement concluded with Austrian Government.
September 20th:	Minister of Finance issues Decree (in accordance with September 1924 Agreement) fixing rate of discount for bills of exchange given in payment of Customs duties at 16 per cent, *i.e.*, 1 per cent higher than official rate of National Bank.

1924.

October 29th:	Law passed, reducing "Banken-" and "Valuten-Umsatzsteuern" to nominal charge, in accordance with September 1924 Agreement.
November 6th:	General Assembly of National Bank accepts proposal in September 1924 Agreement that small Executive Committee be created within National Bank to deal with emergencies.
November 8th:	Railway strike in Austria.
November 17th:	Resignation of Mgr. Seipel's Government.
November 20th:	Dr. Rudolf Ramek appointed Federal Chancellor in place of Mgr. Seipel. New Cabinet formed.
December 20th:	New "Schilling" law (fixing gold value of schilling and making it obligatory for public accounts to be drawn up in schillings as from July 1st, 1925) passed by Parliament.
End of December:	Parliament approves creation of Executive Committee of National Bank to deal with emergencies (in pursuance of September 1924 Agreement).
December:	Amendment of Statutes of National Bank, in pursuance of Geneva Agreement.

1925.

March 1st:	Adoption of "schilling" unit by National Bank and other banks, and by Federal Railways Administration, Commune of Vienna, Postal Administration and Post Office Savings Bank, etc.
March 1st:	Suppression by Austria of certain export and import prohibitions.
March 23rd:	Free dealing in foreign exchange re-established by Decree of Finance Minister (in accordance with September 1924 Agreement).
March 24th:	Budget for 1925 passed, within limits laid down in September 1924 Agreement (495 million gold crowns).
April 1st:	Law passed, in pursuance of September 1924 Agreement, reducing tax on company profits ("Körperschaftssteuer") to 25 per cent.

1925.

April 3rd:	Law renewing provisions of Reconstruction Law in regard to reduction in number of officials passed by Parliament.
April 18th:	Austrian Government requests the League to arrange non-political enquiry by experts into economic situation of Austria.
April:	Report to Commissioner-General on Austrian Posts, Telegraphs and Telephones, by M. Schockaert (Assistant Director of Belgian Postal Service) and M. de Smet (Government Inspector of Telegraphs and Telephones in Belgium).
May 2nd:	Committee of Control decides that it is unable to grant special loan for electrification of Austrian Railways, and calls special attention of League to economic situation in Austria and importance of examining all means calculated to improve this situation.
May:	Appointment by Administration of Post, Telegraph and Telephone Offices of commission to consider reforms in accordance with proposals of experts' report.
Beginning of June:	Law passed making gold balance-sheets compulsory (in accordance with Geneva Agreement of September 1924).
June 9th:	Council appoints Mr. W. T. Layton, C.H., and Professor Charles Rist to conduct economic enquiry asked for by Austrian Government on April 18th.
June 9th:	Council approves allocation from reliquat of reconstruction loan of maximum sum of 88 million gold crowns over period of three years for electrification work on the Federal Railways.
June 27th:	Total reduction in number of Austrian officials to date = 76,287.
June 30th:	Arrival in Vienna of Professor Rist and Mr. Layton (economic experts).
July 30th:	Passing by Parliament of laws effecting extensive reform in financial, constitutional and

1925.

	administrative relations between Confederation and autonomous provinces and communes.
July-August:	Laws passed providing for modification of Constitution, also special law relating to Audit Office, in pursuance of recommendations of Financial Committee in report of February 1925.
August 10th:	Law relating to re-organisation of State forests passed by Parliament, in accordance with provision of Geneva Agreement of September 1924.
August 11th:	Introduction of modified control by Commissioner-General (as contemplated in September 1924 Agreement).
August 26th:	Issue of Decree (in accordance with September 1924 Agreement) constituting salt mines an autonomous undertaking.
September 4th:	Report to League Council by Mr. Layton and Professor Rist on economic situation of Austria.
September 4th:	Austrian Committee of Council requests Financial Committee to submit report on: (1) Stability of the currency; (2) Budget equilibrium; (3) Execution of Agreement of September 1924; (4) Measures to be taken to replace present control and date on which they should come into force.
September 9th:	Report of Financial Committee on four points referred to them by Austrian Committee on September 4th.
September 10th:	Resolution of Council, adopting Financial Committee's proposals in regard to: (1) continuance in office of Adviser to National Bank for three years after termination of control; (2) to possibility of re-establishing control under certain conditions during a period of ten years.
September 10th:	Council decides, on Financial Committee's recommendation, to terminate control of

1925.

Austrian Budget by Commissioner-General, under specified conditions, on January 1st, 1926, and to terminate his functions as a whole after voting of budget for 1926 and receipt of closed accounts for 1925.

October 14th: Austrian National Council accepts conditions laid down in League Council resolution of September 10th in regard to: (1) right to re-establish control under certain conditions within period of ten years; (2) continuance in office of Bank Adviser for three years after termination of control.

November 4th: Adoption at general meeting of Austrian National Bank of amendments to articles of Bank Statutes relating to Adviser.

November 27th: Approval by Federal Council of resolution adopted by National Council on October 14th accepting conditions in regard to retention of Adviser to National Bank and possible re-establishment of control within ten years.

December 1st: National Council passes law sanctioning amendments to Statutes of National Bank required for prolongation of Adviser's powers.

December 3rd: Ratification by Federal Council of this law.

December 9th: Formal declaration signed by Dr. Ramek on behalf of Austrian Government, containing acceptance of League Council recommendations: (*a*) Regarding retention for three years after termination of control of Adviser to National Bank; (*b*) Regarding possibility of renewal of League control in Austria within ten years.

December 9th: Council of League approves Financial Committee's recommendations in regard to arrangements to be made after termination of Commissioner-General's functions *re* control of expenditure of reliquat of loan, management of assigned revenue account, mode of communication between Government and Committee of Control, etc.

1926	
January 1st	Control by Commissioner-General limited (in accordance with Council Resolution of September 10th, 1925) to assigned revenues and expenditure of remainder of reconstruction loan
January	Appointment of Mr. R. C Kay (formerly Manager of London Office of National Bank of Turkey) as Adviser to Austrian National Bank, in place of Dr van Gijn.
March 11th	Council approves release of 6 million schillings from balance of loan for Austrian Dairy Scheme.
March 11th	Council approves appointment of M. Dubois (Chairman of Financial Committee) to manage account in which balance of loan will be kept.
June 9th	Council terminates functions of Commissioner-General in Vienna as from June 30th 1926.
June 9th	Council approves appointment of Mr. Rost van Tonnigen to act in Vienna as representative: (1) of the Trustees of the loan; (2) of M. Dubois (designated to administer balance of loan account).
June 9th	Council approves proposals regarding issue of Treasury Bills, and use of 27 million schillings from balance of loan for construction of telephone cables.

IX.

PRINCIPAL PUBLIC LEAGUE OF NATIONS DOCUMENTS[1] CONCERNING THE FINANCIAL RECONSTRUCTION OF AUSTRIA.

Note. The documents marked with an asterisk (*) are included in the present volume.

1. *Financial Reconstitution of Austria. — Report of the Financial Committee of the Council (wich relevant papers)*. May 31st, 1921) (Documentary history of the problem up to that date).
2. *Supplement to the Monthly Summary of the League of Nations, October* 1922.

   Contents:
   I. Preface by Sir Arthur Salter.
   II. Letter from Austrian Minister in London to Mr. Lloyd George.
   III. Letter from Mr. Lloyd George to Baron George Franckenstein, Austrian Minister in London.
   IV. Reply of Financial Committee to Austrian Committee of the Council.*
   V. Protocols containing Scheme for Financial Reconstruction of Austria.*
   VI. Resolution of Council.*
   VII. Speech by Mgr. Seipel at Council meeting of October 4th, 1922.
3. *Supplement to Monthly Summary of the League of Nations, March* 1923.

Contents:

I. Preface by Sir A. Salter.
Resolution adopted by Council on February 1st, 1923,* approving work accomplished.

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[1] For complete lists of League documents, see the annua Indices to the *Official Journal* of the League of Nations and the Indices to the Records of each Assembly.
Most of the documents in the above list have been reprinted in the *Official Journal*.

II. Report by Provisional Delegation of League at Vienna (October 18th to December 15th, 1922).*

III. First Report by Commissioner-General of League at Vienna (December 15th, 1922, to January 15th, 1923).

IV. Extracts from Speeches made at Seventh Meeting of Twenty-third Session of Council, Paris, February 1st, 1923:

(*a*) Speech by Lord Balfour ;
(*b*) Speech by Mgr. Seipel, Chancellor of Austria;
(*c*) Speech by Dr. Zimmerman, Commissioner-General of League at Vienna;
(*d*) Speech by M. Viviani.

V. Resolutions adopted by Council at its meeting of February 1st, 1923*. Statements by M. Salandra, M. Viviani and Lord Balfour.

VI. Reports by Committee of Control for Austria:

(*a*) The Loan Position;
(*b*) Note regarding Guarantees of Percentages;
(*c*) Release of Assets from Reparation Charges.

VII. Summary of Economic and Financial Statistics.

VIII. Chronology of Austrian Reconstruction.

4. *Forty-two Monthly Reports of the Commissioner-General in Austria, Dr. A. R. Zimmerman*, covering period from January 1923 to July 1926[1].

5. *Document* C.360.M.161.1923.II: *Austria, Progress in the Financial Reconstruction. — Issue of Long-term Loan. — Decisions of the Council of the League (24th session) and the Committee of Control.*

Contents:

I. Minutes of Eleventh Meeting of Twenty-fourth Session of the Council, held on Sunday, April 22nd, 1923, containing Resolutions* by the Council with regard to the Financial Reconstruction of Austria.

II. Third Report of Commissioner-General in Austria, covering period February 15th to March 15th, 1923 (with 11 annexes).

[1] The 42 Monthly Reports of the Commissioner-General will shortly be available in volume form, with alphabetical index.

III. Decisions and Documents of Committee of Control for Austria regarding Long-term Loan (including text of General Bond[1] *).

6. *Report on the Reconstruction of the Austrian State Railways, by Sir William Acworth, K.C.S.I., assisted by Dr. Robert Herold, Director of the Railway Section of the Swiss Federal Department of Railways, Posts and Telegraphs* (C.638.M.238.1923.II).

7. *Document* F.186: *Financial Reconstruction of Austria. — Agreement* approved by the Council of the League of Nations on September 16th*, 1924 (*with the previous Relevant Documents*).

   Contents:

   I. Proceedings during March 1924:
      A. Request of Austrian Government for New Enquiry;
      B. Resolution adopted by the Council on March 12th, 1924.*

   II. Proceedings during June 1924:
      A. Joint Report by the Financial Committee and the Commissioner-General, June 12th, 1924;*
      B. Resolution adopted by the Austrian Committee of Control on June 13th, 1924;*
      C. Resolution adopted by the Council on June 16th, 1924.*

   III. Proceedings during August–September 1924:
      A. Joint Report by the Financial Committee and the Commissioner-General, September 15th, 1924;*
      B. *Agreement* (with Annexes);*
      C. Resolution adopted by Austrian Committee of Control on September 15th, 1924;
      D. Resolution adopted by the Council on September 16th, 1924.*

8. *Report on the Economic Situation of Austria, by W. T. Layton, C.H., and Charles Rist* (C.440(1). M.162(1). 1925.II)[2].

9. *Document* C.541.1925.II: *Financial Reconstruction of Austria. — Dates and Conditions of Termination of Control. — Resolution* adopted by the Council of the League of Nations on September 10th*, 1925 (*with the Relevant Documents and Public Statements*).

[1] The text of the General Bond was slightly modified later.
[2] A summary of this Report is given on page 241 of this volume.

Contents:

I. Report by the Financial Committee to the Austrian Committee of the Council (September 9th, 1925).*
II Extract from Minutes of Meeting of Council on September 10th, 1925.
III. Resolution adopted by Council on September 10th, 1925.*
Appendix: Agreement approved by Council on September 16th, 1924.*

10. *Document* C.797.1925.II: *Financial Reconstruction of Austria. — Arrangements consequent upon the Approaching Limitation and Termination of the Commissioner-General's Control. — Economic Recommendations. — Resolution* adopted by the Council of the League of Nations on December 9th,* 1925 *(with the Relevant Documents and Public Statements).*

Contents:

I. Decision *(Beschluss)* by the National Council, October 14th, 1925.
II Federal Law of December 1st, 1925, regarding Temporary Appointment of an Adviser to Austrian National Bank.
III. Extract from Report of Financial Committee to Council on Twentieth Session of Committee, held at Geneva, December 3rd to 8th, 1925.*
IV. Extract from Report of Economic Committee to Council on Seventeenth Session of Committee, held at Geneva, November 30th to December 4th, 1925.*
V. Extract from Minutes of Meeting of Council on December 9th, 1925.
VI (*a*) Letter from Austrian Federal Chancellor to President of Council of League, dated December 9th, 1925;*
(*b*) Declaration by Austrian Government, dated December 9th, 1925;*
(*c*) *Pleins Pouvoirs* of Austrian Chancellor, dated November 27th, 1925.
VII. Resolution adopted by Council of League on December 9th, 1925.*

VIII. Letter from Chairman of Financial Committee to Austrian Federal Chancellor, dated December 8th, 1925,* and Declaration of Financial Committee.*

IX. Letter from Commissioner-General of League to Austrian Federal Chancellor, dated December 9th, 1925, and Declaration of Commissioner-General.

11. *Report of Financial Committee on Work of Twenty-first Session of Committee, held at Geneva from March 5th to 8th,* 1926 (C.155.M.70.1926.II). (Partly on Austria.*)

12. *Document* C.385.1926.II: *Financial Reconstruction of Austria. — Termination of the Functions of the Commissioner-General.*

Contents:

I. Report of Financial Committee to Council, dated June 7th, 1926.*

II. Extract from Council Minutes of June 9th, 1926.

III. Resolution adopted by Council on June 9th, 1926.*

X.

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Erratum.

On page 76, third line from the bottom of page, the sentence should read

"In August 1922 the gold value was *something between one-third and one-half* of what it had been in 1913"

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